

RECOLLECTIONS
OF A BUSY LIFE

JAMES B. FORGAN

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OF A

SPECIAL EDITION

FOR

DISTRIBUTION AMONG MY
RELATIVES AND MORE
INTIMATE FRIENDS

IT IS PRESENTED TO
MY FRIEND

W. H. Davies

WITH MY KINDEST REGARDS
AND BEST WISHES

Jas Morgan

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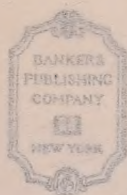
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PORTRAIT OF MR. FORGAN TAKEN ON HIS SEVENTIETH
BIRTHDAY

RECOLLECTIONS OF A BUSY LIFE

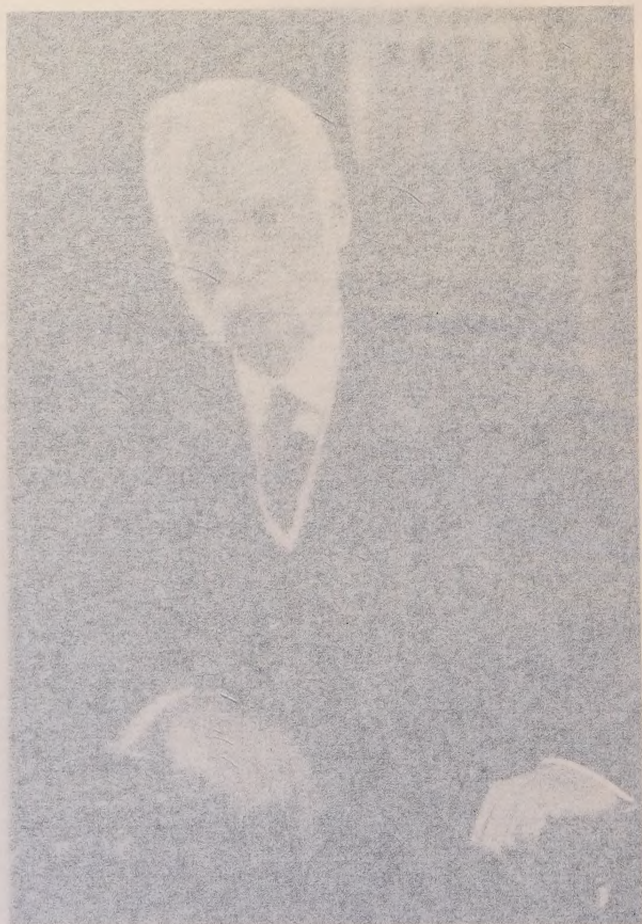
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JAMES B. FORGAN



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NEW YORK
THE BANKERS PUBLISHING COMPANY

1924



Portrait of Mr. Lowry Tarkenton on His Seventieth
Birthday

RECOLLECTIONS OF A BUSY LIFE

BY
JAMES B. FORGAN



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"My business success was, of course, co-ordinate with that of the banks I worked for and their success was attributable to the marvelous opportunities they had for growth and development. . . . The fact is that the extraordinary business development of the United States and Canada during the past generation has afforded opportunities for bankers and banking in both countries unparalleled in any previous generation in any country in the world's history. All that we bankers had to do, therefore, was to keep the middle of the road, manage the affairs of our banks honestly and with ordinary care, and success for ourselves and our institutions was inevitable."

Jack Morgan

TO
MY WIFE

WHOSE CONSTANCY, FIDELITY AND SOUND COUN-
SEL HAVE CONTRIBUTED VERY LARGELY TO
WHATEVER THERE MAY BE WORTHY OF
RECORD IN THIS BOOK, THE TITLE
OF WHICH WAS SUGGESTED
BY HER

PREFACE

DURING the past two years, since I reached the span of man's life, as allotted by the psalmist, the suggestion that I record my memoirs has come to me from several friendly sources. While spending the past winter in Florida, when the weather was unusually cold and wet and I had to be in my room a good deal of the time, I commenced them, and becoming interested in the reminiscences as they occurred to me, I completed them before I returned to Chicago.

My original intention was to print them for private circulation only; but on the advice of some of my more intimate friends, who have perused the manuscript, I have consented to having them published for general distribution. This I have done in the hope that they may prove interesting to some of my many acquaint-

ances among American bankers, and may possibly be of some service to the rising generation of the profession.

The criticism has been made that too much prominence has been given to the development and statistical growth of the banks with which I have been officially connected, and that the book would be more interesting to the general reader if it contained a more direct personal touch, and possibly more of life's philosophy. In answer to this criticism, I can only say that I had not the general public in mind when I wrote the memoirs; and that my life has been so absorbed in, and my energy so concentrated on, the growth and development of the banks which have commanded my services, that my life story has been practically inseparable from theirs, and that it is my *business* career that I have had in mind to record.

As I have no desire to "blow my own trumpet" for my own financial advantage, I have effected an arrangement with the publishers that all royalties derived from the publication of this book will be turned

over to the Illinois St. Andrews Society for the benefit of the Scottish Old Peoples Home at Riverside. Every purchaser of a book will, therefore, have the satisfaction of knowing that a liberal percentage of the price of each volume sold will be devoted to this very worthy philanthropy.

JAMES B. FORGAN.

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Chapter I
Five Generations

CHAPTER I

FIVE GENERATIONS

I LEFT St. Andrews, Scotland, which was the home of my boyhood, before I attained my majority. As I never planned until now to write my memoirs, I have nothing to help me in telling about my ancestors, but my recollection of what I knew of them or heard about them during my boyhood. I have a clear recollection of my grandparents, both paternal and maternal, although my mother's father died some years prior to my leaving home. His funeral was the only one I had attended up to that time. In my early boyhood my father's parents lived at Anstruther, ten miles from St. Andrews, and later at Pittenweem, two miles further along the Fife seacoast. I paid frequent visits to them during my summer vacations, and my last visit, just before I left for Canada, is in-

delibly fixed in my memory. The only direct means of transportation then was a bus, which ran daily from Anstruther to St. Andrews each morning and returned in the late afternoon. The two miles between Anstruther and Pittenweem had to be walked. On returning from my last visit to them, my grandfather, a large, heavily built man, who had retired from business and was showing the effects of his advancing years, accompanied me on my morning walk from Pittenweem to catch the bus at Anstruther. He walked about three-fourths of the distance with me and suddenly stopped at a stone, which stood erect from the bottom to the top of a dike, built along the front of a field. He drew my attention to the standing stone, as he called it, and told me that if ever I passed that way again, I would remember that there is where I parted with my grandfather, that I would never see him again. Then he said: "Good-bye, God bless you, Jamie," and with that, being overcome with his feelings, he suddenly left me. My feelings were no less affected. He had

been a kind grandfather to me, and I was very fond of him. I have visited Scotland six times since, and passed over the Anstruther and Pittenweem road, and on each occasion I stopped at the standing stone and recalled this affecting parting scene with my grandfather.

My recollection of my grandfather's occupation is that he was harbor master at Anstruther and later at Pittenweem, both of which were seaports, with considerable shipping and a large fishing business. His progenitors had been tenant farmers in the parish of Carnbee in the center of Fife-shire, where there is a cemetery in which he and a considerable number of his family are buried and where I have seen a very considerable number of gravestones erected to the sacred memory of several generations of Forgans. I have in my possession a twenty-year lease of a farm in this locality in favor of Andrew Forgan, dated August 17, 1774. The tenant was the grandfather of my grandfather. The maiden name of my grandmother was Paterson; she came from Lauder, not far

from Edinburgh. My only recollection of her family is that she had a brother who was a minister in the United Presbyterian church in which he made a high reputation as a preacher, an account of his life with a volume of his sermons being published after his death. She had, I believe, another brother, who went to India as a missionary.

My grandparents had a very large family, well up in the teens in number, and my father was their first-born. At least two of the family were contemporaries of mine and my older brother John as to age. My information about former generations of the family is very hazy and too indefinite to write about. There was a rather romantic tradition which passed down through several generations of the Forgan family, to the effect that several generations prior to that of my grandfather, one of his tenant farmer progenitors had married into one of the aristocratic landowning families of the county. For this unpardonable breach of etiquette, the bride was for some time ignored by her



THREE GENERATIONS OF MR. FORGAN'S FAMILY

parents and their family, but after she became the mother of five or six stalwart sons, who became a credit to her motherly care of them, and having made for herself an excellent reputation as a mother and a housewife, of considerable influence in the community, her relations not only became reconciled to her but were proud of their connection with her. I do not vouch for the authenticity of this romantic story, but I got it from both my father and my grandfather, and they seemed to put credence in it.

There was a real romance, however, connected with my paternal grandfather and my maternal grandmother. It seems that as young people they were fond of each other and were known to be lovers, if not actually betrothed. This was the situation between them when Jessie Paterson, a petite, sixteen-year-old girl, came on a visit from Lauder near Edinburgh. My grandfather, John Forgan, became enamored of this young lady to the forsaking of his recognized sweetheart, and after a very short courtship they were

married. The report was that the relations between the former lovers were broken off by mutual consent and without a quarrel, each going their separate ways. They did not meet again for more than twenty years, when they came together at the marriage of their children—my father and mother. From this time on they met frequently and entertained for each other a high regard during the remainder of their lives.

My mother's father, James Berwick, after whom I was named, was harbor master at St. Andrews. The maiden name of his wife, my grandmother, was Wilhelmina Menzies Buist, and they both belonged to a race of farmers. Both the Christian and the surname suggest Dutch ancestry. They, likewise, had a large family, two of their sons being trained as bankers, one settling in London, the other in Lincoln, England. The eldest of the family spent his life as rector of Forres Academy. I will have occasion to refer to him again, as I finished my school days under his care. A fourth son became a

successful merchant in St. Andrews. There were five daughters, only one of whom, my mother, married. Another died a few years ago, and the other three are still living, at a ripe old age, in the house to which their father took their mother as a bride and in which they were born. They are highly educated and are a wonderful trio, keeping abreast of the times and taking a lively interest in current events, not only local but national and international. When I visited them in 1922 I found them quite well posted on American politics and on British-American international affairs.

I was born April 11, 1852, at St. Andrews, Scotland, and about this time my father, Robert Forgan, commenced business there as a golf club and ball maker. He bought out the business of Hugh Philip, who up to that time had been the only club maker in St. Andrews, and had died at a ripe old age. The price paid by my father for the business would now appear to be merely a nominal consideration, but it then represented the ap-

praised value of the stock on hand, the tools and the good will. Under my father's management, and the impetus given to it by the rapid development of the game the world over, the business grew into quite considerable proportions and enabled him to acquire a very fair competency by the time he retired in favor of my brother Tom. His name was continued in the business, the firm becoming Robert Forgan & Son. Under Tom's management the business continued to grow, but he died some years ago, and it was turned over to his son Lawrence. It is now incorporated as Robert Forgan & Son, Ltd., and does not yet seem to have attained its full growth.

In a retrospect of my life's journey I recognize two outstanding factors which have contributed materially to whatever success I have achieved. The first of these was my extremely good fortune in having had God-fearing and good-living parents, who did all that loving parents could do to equip their children for life's conquest. Through the loving care of our mother

and the equally loving sagacity of our father, we were provided with a happy home and raised in an atmosphere of good morals, habitual industry and strict frugality. As already stated, there were six of us, five sons and a daughter, all of whom have met with success in their various callings, have lived useful lives and made for themselves honorable reputations. Two of my brothers, John and Robert, entered the ministry; my sister, Jessie Wilhelmina, married a minister; my brother, Tom, succeeded my father in business and my brother, David, and I are bankers.

The other contributing factor was my equally good fortune in having married a wife who has been a real co-partner with and helpmeet to me, honoring her marriage vows and faithfully caring for me in sickness and in health. By precept and example she has admonished me to control my tendency to irascibility, has adapted herself to every change in family life, managed family affairs efficiently and economically, encouraged me to thrift, inspired me to good deeds and seen to it

that our home has been kept one of peace and comfort for me and the children. She was Mary Ellen Murray, daughter of Donald Murray, a prominent merchant in Halifax, Nova Scotia, where we were married on the 19th of October, 1875. We have had five children, three sons and two daughters. One of our daughters died in infancy.

Our first born, Robert Donald, got his early training in the Bank of Nova Scotia, entering its service in the Chicago branch and later being transferred to the branch in Toronto.

When the First Trust & Savings Bank commenced business on December 28th, 1903, he entered its service as assistant treasurer and is now its treasurer. Shortly thereafter, he married Elizabeth Wright-Clark of Newark, New Jersey. Her father, Major-General John G. Wright, won distinction in the Civil War under General Sherman. Her mother died in 1881 and she and her brother, then young children, went to Scotland to live with their grandmother and grand uncle, John



THREE GENERATIONS OF MR. FORGAN'S PARENTS' FAMILY

Clark, head of the internationally famous Clark Thread Company. A few years later she returned to complete her education at Dobbs Ferry, New York.

Robert and Elizabeth were married February 25th, 1904. They have four children, Margaret, James Berwick III, Elizabeth and Robert, Jr.

Our daughter, Jessie Wilhelmina, married John Nash Ott, a lawyer. He is now one of the attorneys for The First National Bank and First Trust & Savings Bank. They have three children, Mary Katherine, John Nash, Jr., and Dorothy.

Our next in sequence is Donald Murray. After completing his education at Williams College he became an apprentice steamfitter at Decatur, Illinois, preparatory for service in the American Radiator Company. After passing through various departments in the Chicago office of that company he was, about two years ago, appointed manager of its branch in St. Louis, Missouri. He married Margaret Herrick, daughter of the late John J. Her-

rick, a well-known and highly-respected member of the legal profession in Chicago. They have one daughter, Julie Dulon.

Our youngest son, James B., Jr., also attended Williams College for two sessions, after which in 1909 he entered the service of the First National Bank as a messenger. When the Second Security Bank was organized in 1911 he joined its staff and remained in its service until 1916, filling the positions consecutively of assistant cashier, cashier and president, when he returned to the First National Bank, in which he now holds the position of an assistant vice-president. He married Margaret Meeker, daughter of the late George W. Meeker, a prominent and successful coal merchant. They have two daughters, Margaret Louise and Mary Ellen.

Thus our children have all left us and established homes of their own. Their families provide us with ten grandchildren.

On the seventieth anniversary of my birthday at a family reunion in the home of my eldest son, Robert, in Highland

Park, we had a group photograph taken of the three generations there represented. The group very properly includes my sister-in-law, Jane L. Murray, fondly known by both generations of the family as "Aunt Janey". She has been a member of our family ever since we had a family and has had much to do with the care of it, being an ever ready help in time of need. This picture is here reproduced and along with it, by way of an interesting comparison, a similar picture of three generations of my father's and mother's family. The latter picture was taken at a reunion of their family a short time prior to the celebration of their golden wedding. In it there are two representations of the first generation, twelve of the second and twenty-four of the third. My brother John and his wife had just returned from India where they had lived for eight years, four years in Bombay and four in Simla. He was minister of the Scotch Church in both of these cities. My brother, David R., was at the time cashier of the Northwestern National Bank, Minneapolis, and

I was vice-president of the First National Bank of Chicago. Our families crossed the Atlantic together to attend the reunion. The other three branches of the family had remained in Scotland.

Chapter II
My School Days



MR. FORGAN'S UNCLE'S BOARDING SCHOOL AT FORRES WHERE HE WAS A BOARDER-PUPIL
(Mr. Forgan in Center of Back Row)

CHAPTER II

MY SCHOOL DAYS

MY education started at the infant school and was continued at Madras College, St. Andrews—so called, although it was only a preparatory school—until I was twelve years old. I had not been progressing with my studies to the satisfaction of my parents, so they took the matter up with my Uncle John Berwick, M. A., who was rector of Forres Academy at Forres in the north of Scotland. In connection with the academy he kept a boys' boarding school, with fourteen or fifteen boy boarders, and I became one of them. My uncle took the right tack with me. I was twelve years old, tall for my age, and somewhat backward with my education, which he tested by an examination, after which he assigned me to the grade to which, in his judgment, I be-

longed. This placed me in classes composed of younger and much smaller boys, over whose heads I towered physically, if not mentally. This hurt my pride and caused me to make a spurt at my lessons, with the result that before the end of the first session I was advanced to classes made up of boys of my own age, if not of my own size. I must have kept up this spurt, for in my last year I graduated at the head of most of my classes. As encouragement my father had promised me five shillings for each first prize I took and half a crown for each second prize. I do not recall how many prizes I got, but I remember that after my father settled with me I felt suddenly rich and that I spent part of my prize money in having a photograph taken of my sister and myself, which I still have.

In addition to my class and competition prizes, I received one of which I was very proud. It was a book of psalmody, containing the Scottish metrical version of the Psalms of David and the Paraphrases as sung in the Scottish churches, with the



MR. FORGAN AND HIS SISTER

tunes to which they were adapted, in the Tonic Sol Fa system of music, which was then taught in school and much in vogue throughout the country. It was beautifully bound in green kid leather and was presented to me by two of my teachers in the academy, who were also resident tutors in the boys' boarding school. On the fly-leaf the following inscription was engrossed by the drawing master at the school:

Presented
to
Mr. James B. Forgan
by
Messrs. Parker and Cameron
as a token
of their great appreciation of his dili-
gence and perseverance as a pupil,
his uniform rectitude of conduct
and amiability of dispo-
sition

This was a certificate of character of rather a high standard to maintain

through life. It is not for me to say how I succeeded, but I will say that experience has convinced me that "diligence and perseverance" afford a wonderful protection against temptation to stray from "uniform rectitude of conduct" if they do not always contribute to "amiability of disposition". I have always worked harmoniously with those with whom I have been associated in business, both those ranking over me and those under me; and, so far as I know, I have maintained pleasant relations with competitors. I am afraid, however, that under business pressure I was not always conspicuous for amiability of disposition, but I am not aware of having lost the friendship nor incurred the enmity of anyone.

Chapter III

My Apprenticeship and Early Business Training



ROYAL BANK OF SCOTLAND BRANCH AT ST. ANDREW'S, WHERE MR. FINLAY SERVED HIS
APPRENTICESHIP

CHAPTER III

MY APPRENTICESHIP AND EARLY BUSINESS TRAINING

JUST after I returned home from Forres Academy in my sixteenth year, my father was asked by Mr. William Murray, a writer (Scotch for lawyer), what I intended to do or to be. After some negotiations, in which I had small part, it was settled that I should enter Mr. Murray's law office as an articled clerk for four years. I was to attend such classes in the St. Andrews University as would be required to enable me to qualify for the legal profession. Before I had been a year in his office Mr. Murray died, and another writer, Mr. Stuart Grace, the leading lawyer at that time in St. Andrews, who was also agent for the Royal Bank of Scotland, offered me a position in his law office, with the privilege of going into the

bank as an apprentice as soon as a vacancy should occur. A vacancy was expected in a few months when the then apprentice would have served his time. The bank staff consisted of an experienced accountant and an apprentice. We had some difficulty in arranging with Mr. Murray's executor to cancel the contract under which I was bound as an "articled clerk," with my father as my bondsman. The law practice, along with the office furniture and the clerks, of whom there were two besides me, were to be turned over to another writer from Cupar, the county town, and the executor considered it within his rights, as no doubt it was, that I should go along with the rest. The prospective bank apprenticeship, however, appealed to me very strongly, and the executor was finally persuaded to cancel the contract and permit me to accept Mr. Grace's offer. I joined the staff in his law office, which consisted of six besides myself. Two of these were practicing lawyers, one an experienced bookkeeper, and the other clerks or law students. In a few months the bank

apprentice, whose name was Young, secured a position with a London foreign bank and left for India. I succeeded him for a three-years' apprenticeship on the munificent salary of £10 for the first year, £15 for the second year, and £20 for the third year, payable quarterly. I have never regretted my year's experience in a law office, nor have I had cause to regret my change from the law to banking. The latter appealed to me then very strongly, and I believe it has suited my personality better and has afforded me much better opportunities than could ever have come my way had I followed the Scotch law.

As I look back on my life during my three-years' bank apprenticeship, it seems to me that the habits of industry and application which I acquired under my uncle at Forres Academy must have clung to me, for I certainly had no idle time on my hands. Mr. John A. Leslie, the bank accountant, had organized a fish company for the sale to the citizens of St. Andrews of the fish caught daily by the fishermen. He acted as secretary of the company and

got me to help him keep the books and to make up the customers' pass-book accounts at the end of each month. After I had been about a year in the bank, Mr. Leslie, who had been in Canada before, and whose wife was a Canadian, decided to return thither with his family of several children. When he left, I succeeded him as secretary of the fish company. A little later, there being no ice available in the town, I organized the St. Andrews Ice Company and became its secretary. In this capacity I arranged for the importation each winter, by schooner, of a cargo of ice from Norway. A statement of my daily routine, as I now recall it, will afford an idea of what I had to do. Each morning before breakfast I worked for an hour or more on my father's books. Twice a week during the summer, before going to the bank, I had to be at the icehouse to superintend the deliveries of ice and keep account of the same, rendering and collecting the monthly bills of the purchasers. The company had no facilities for delivering the ice except at the door of the icehouse. My hours at the



ST. ANDREWS LITERARY SOCIETY OF WHICH MR. FORGAN
WAS A MEMBER
(Mr. Forgan at Top Right of Center Picture)

bank were from 9.30 A. M. until the day's work was finished. The bank opened at ten, closed at three, and I was usually ready to leave about four o'clock. I went regularly from the bank to the fish company to post its books. I belonged to a literary or debating society which met twice a month in a room of the Madras College, for which I had occasionally to prepare papers for opening the debates. For one year I acted as secretary, and for the last year I was in St. Andrews I acted as president of this society. The honorary president was Rev. A. K. Boyd, D. D., senior minister of the St. Andrews established church, and of national renown as a preacher and author of several popular books. I belonged to the Rifle Volunteers and attended military drill once a week. I twice spent one-half of my fortnight's annual vacation in military camp, along with all the volunteers of the county of Fife and the neighboring county of Kinross. I was a member of the church choir and had to attend the weekly meeting for practice. When I had a free night, I went into Mr.

Grace's law office and helped with the copying of documents, of which there seemed to be no end. There were no typewriters in those days, all documents had to be written by hand, and the more important of them had to be carefully engrossed on government stamped paper or parchment. Notwithstanding all these engagements I managed to get in an occasional game of golf on the famous St. Andrews links. This I did on Saturday afternoons and holidays. There was daylight sufficient to play golf until ten o'clock at night during the summer, and I sometimes had a game at night after my day's work was done.

Chapter IV
Leaving Home



PORTRAIT OF MR. FORGAN TAKEN IN LONDON
FOR THE BANK OF BRITISH NORTH AMERICA

CHAPTER IV

LEAVING HOME

I HAVE stated that Mr. Leslie, the bank accountant, left for Canada about the end of the first year of my apprenticeship. During the two following years I kept up correspondence with him. He had re-entered the service of the Bank of British North America and was located at its branch in Toronto. At the end of my three-years' apprenticeship he urged me to apply to the head office of this bank in London for a position in Canada. I acted on his advice and wrote to the bank without telling my father and mother I had done so. First, I wanted to find out what the chances were. In answer to my letter I received from the secretary a printed formal application to fill out and return to him along with letters of commendation from the provost of the town, the min-

ister of the church I attended, my employer and one or two others. This I attended to, and a little later I received a letter requesting me to go to Edinburgh for a physical examination by one of the leading physicians there. The doctor gave me a certificate on sight without examination. The bank sent me a check to pay the expenses of my trip to Edinburgh and the doctor's guinea fee. Negotiations were now becoming serious and before going to Edinburgh I told my parents what I was up to. They did not take kindly to the idea, but on giving them the arguments of Mr. Leslie, which had convinced me as to the much better opportunities for young bank-men in Canada than in Scotland, and showing them the large number of Scotch bank clerks who were steadily going abroad in the employ of the various foreign banks having their head offices in London, with branches in the British dominions, they finally consented to my going ahead with my plans. Very soon I was advised that my formal application, letters of recommendation and doctor's



GROUP PORTRAIT OF FAMILY TAKEN JUST BEFORE MR. FORCAN LEFT HOME

certificate being found satisfactory, I should appear in London on a certain day to undergo an examination, principally educational. A check to cover my expenses on the trip was enclosed. I duly appeared in London on the day named and along with several other applicants was handed the examination papers. They contained a number of questions similar to what I had been accustomed to in school, and they did not appear to me to be very difficult. I answered them within the time allotted and handed the papers to the secretary, who asked me to return at a fixed hour the following day when I would be informed as to my success. On returning as requested I was told that I was one of the successful candidates. I was thereafter suddenly ushered into a meeting of the board of directors, a formidable body of fine looking old gentlemen as I remember them, sitting around a large table. This was my greatest ordeal, as several of them started to ask me questions at the same time. Their object seemed to be to confuse me. Unable to answer them all

at once, I directed my attention to the chairman and, answering his inquiries, I got through satisfactorily. I had then to go to a photographer to have my portrait taken for the bank, to be sent to Canada for my identification. Incidentally, I contracted for a dozen for myself, one of which I still have.

My passage to Canada was secured for me on the Allen Line S. S. Peruvian, to sail from Liverpool to Portland, Maine, then the winter port for Canadian mail steamers. I was booked to leave on Thursday, March 6, 1873, which was four or five weeks ahead, and I returned home to prepare for the great event. My passage through to Montreal was paid by the bank and a check for £10 was given me to cover incidental expenses on the voyage, all of which seemed lavishly liberal to me. On my return to St. Andrews I found myself suddenly raised to a position of unusual importance in the family, which consisted of four brothers and a sister, and among my numerous friends and acquaintances in St. Andrews. It was not every



THE SAME GROUP, SIMILARLY POSED, TAKEN TWENTY-FOUR YEARS LATER

day that a young man left home for foreign parts and considerable interest was manifested in my emigration. The day soon came when I had to say good-bye to father and mother, brothers and sister, grandmother and numerous aunts, uncles and cousins. It was a great wrench and quite an ordeal to thus become the first to cause a break in the family circle. As I walked to the railway station the neighbors along the street came to their doors to say good-bye and to express all kinds of good wishes for me in the new land of my adoption.

As arranged, I sailed from Liverpool on Thursday, March 6, 1873, and after a rough passage, lasting thirteen days, I arrived in Portland on Wednesday, March 19, and in Montreal the following day.

Shortly before I left home a photograph was taken of the family, which is herewith reproduced, along with a similar group taken in exactly the same position twenty-four years later when we met at the family reunion referred to in Chapter I.

Chapter V

*My Experience as a Clerk in the
Bank of British North
America*

CHAPTER V

MY EXPERIENCE AS A CLERK IN THE BANK OF BRITISH NORTH AMERICA

ON the morning of the day following my arrival in Montreal I presented myself at the Bank of British North America and was assigned to work in the office of the general manager, Mr. R. R. Grindley. In the course of my duties I handled the correspondence with the London office and discovered that my salary had been fixed at \$700 a year, while some other men sent out at about the same time only received \$600. The reason given was that I had a knowledge of French, which surprised me, as my acquaintance with that language was very slight, consisting of the mere rudiments, acquired in a French class during the two last sessions of my school days and an ability to sing the Marseillaise hymn in its original lan-

guage. I remembered, however, that as part of my examination in London, I had been asked to translate an ordinary business letter, received from a correspondent in Paris. I had managed to catch the purport of the letter and had produced a free translation of what I understood it to convey. I must have made a good guess to be worth \$100 additional salary, but I gathered from the incident that a knowledge of French was considered valuable, so to improve my acquaintance with it I promptly arranged to board in a French boarding house where the language was spoken.

I had not, however, the opportunity to acquire much French, for on April 10th I was ordered to leave Montreal for New York, where one of the clerks had met with an accident. The exact date is distinctly fixed in my memory by the fact that I was en route to New York on my twenty-first birthday. Some of the outstanding memories of my stay in New York may be interesting. The salary allowed in New York as the equivalent of

\$700 in Canada was \$1,000 in gold, and as paper money was at a discount we—the clerks—promptly exchanged the gold for currency with which to pay our board and other bills. My salary amounted to \$100 a month. I lived in Brooklyn, crossing morning and evening on the Fulton ferry. The bank supplied us with a free luncheon, and I found that the cost of board and lodging differed very little from what I had paid in Montreal. I felt rich and thought that so far as pay was concerned I was doing very well. I found no difficulty, however, in spending the money. I soon discovered that my Scotch clothes were not of the style or cut of those worn by the habitues of Wall Street, and I had to get an American-made suit and a silk hat to be in keeping with my surroundings. I have pleasant recollections of my short sojourn in New York. The office was pleasant to work in, the clerical staff being sociable and friendly. A few of us lived together in the same boarding house and stuck together in finding recreation after office hours. On Sundays we went

to hear the great preachers of the day, such as Beecher and Talmadge, who were then in their prime. The agency of the bank was managed by three officers, designated first, second and third agents. John Paton (later of Jesup, Paton & Co., prominent private bankers in New York) was first agent, Thomas Fyshe was second agent, and William Davidson third agent. They were all high-grade gentlemen of exceptional ability, under whom it was both a pleasure and a profit to work. My stay was cut short, however, by the recovery and return to work of the man whose place I had been sent to fill. I was only in the office four or five months when Mr. Paton, one day, came to the end of the high desk on one side of which I was at work, while the other was occupied by a man named Williamson, one of my boarding house chums. Mr. Paton had in his hand a telegram and addressed us about as follows:

“Young gentlemen, I have here a telegram from the general manager which reads as follows: ‘Send a man to Halifax.’

I don't think it is as bad as it sounds. I have been in Halifax, and I think it is a very nice place. It will be one of you two who will have to go. Perhaps one of you would like to go and the other prefer to stay here. You can talk it over and I will be pleased if you can arrange it between you." Then started considerable teasing of both of us by the other men in the office and "go to Halifax" was a familiar way of greeting us during the day. Neither of us wanted to leave New York. "Go to Halifax" did not sound well. When, therefore, along in the afternoon Mr. Paton came back to inquire if we had arranged the matter between us, he found us both very much opposed to going. He then said: "Well, to show my sincerity and disinterestedness, we will have to leave it to chance. I will toss up this coin and the one who wins twice out of three times will have the choice of staying or going, while the other one will have to do the other thing." I lost, and much to my chagrin at the time I had to go to Halifax, but it did not turn out as badly as I feared it might.

I found the clerks in the Halifax office mostly young Scotchmen like myself. They lived a rather Bohemian life, four or five of them having rooms in an old house at No. 1 Granville Street, kept by Mr. Dow, an old Scotchman. They got breakfast in the house, a luncheon was brought into them at the bank by the bank messenger, or by a fruit vender who came in every day, and they took dinner at the Halifax Club. This latter was a special privilege accorded them, along with the Bank of Montreal men and the British Army officers of the garrison at the Halifax Citadel. These were all only temporary citizens, and as such were given the privilege of the club, paying only the regular dues without any entrance fee. This was quite an advantage as well as a convenience, and gave us a social standing in the community. This had been the practice for many years, likewise it had become the custom when one man was sent away to another branch, the man who came to take his place took over his room in Mr. Dow's house. This practice was broken

up in rather an interesting manner. After I had been there about a year, when reading the morning papers at breakfast, someone drew attention to an advertisement, by an Edinburgh lawyer, stating that if Alexander Dow, who had left a certain place in Scotland at or about such and such a date, was still alive and would communicate with this lawyer, he would learn of something to his advantage, as his brother had died in Australia and left a considerable fortune without other heirs. We called Mr. Dow in and read the advertisement to him. At first he seemed inclined to believe that some of us had put the advertisement in the paper and were trying a joke on him. He was, however, finally convinced and employed a prominent lawyer, who also boarded in the house, to take the matter up by correspondence with the Edinburgh lawyer. The result was that, shortly thereafter, he left for Scotland, where he secured a very considerable fortune, with which he returned to Halifax, and having no further occasion to keep boarders for a living gave

us all notice to find other quarters. This scattered us around different boarding houses and was really a good thing for us as our style of living was entirely too clan-nish and isolated. After this I became better acquainted with the people of the community and found life in Halifax quite agreeable. I got into nice society, and in about two years I became engaged to marry Miss Mary E. Murray, daughter of Donald Murray, of D. Murray & Co., carpets and house furnishing merchants. There was, however, an impediment in the way of my carrying out this laudable intention. My salary had been increased to \$800, but there was a rule in the bank that no employee should marry on less than \$1,000 a year, and if anyone broke the rule the penalty was that he would not be recognized as a married man, and if he should be moved to another branch he would only be allowed his own individual expenses of moving and not his wife's nor the expense of moving his household furniture. I had been about two years in Halifax, which was a fairly long

stay at one branch. I was liable to be moved at any time and might be ordered clear across the continent to British Columbia or somewhere else. At this time a friend of mine, Mr. Greer, gave up a pretty good position in Dun, Wiman & Co.'s office, the Canadian branch of the R. G. Dun & Co. mercantile agency, to join Captain Clarkson, a retired British officer, in a general life and fire insurance business as Clarkson & Greer. Dun's manager for the Maritime provinces, Mr. William Hedley, offered me the position on a salary of \$1,000 a year to start with, which, after tendering my resignation to the Bank of British North America, I accepted. Thus I became, for the time being at least, a permanent citizen of Halifax, and as such lost my membership privileges at the Halifax Club. Just before I left the bank there was a change in its management. Mr. J. G. Orchard, whom I met years afterwards as cashier of the Merchants Loan & Trust Co. in Chicago, had been manager during my connection with the Halifax branch and for some

years before that. He was transferred to a branch in Ontario and was succeeded by Mr. Penfold. In connection with this change, an inspection of the branch was made by the regular inspector, Mr. William Grindley. A copy of the inspector's report had to be made for the use and benefit of the new manager. As I kept the customers' liability ledger, the major part of the clerical work in the inspection report had devolved on me, as it contained a detailed statement of each customer's liabilities to the bank. The banking practice then was to discount what was known as commercial paper, given for goods purchased. The statement, therefore, of each customer's liabilities was quite lengthy. Probably for this reason the copying of the inspector's report was assigned to me. It was a strictly confidential job, and I had to work in the manager's private office while I was at it. I mention this now because the knowledge and experience acquired became of very considerable value to me as I will have to relate later on. Among other confidential reports I

had to copy were those on the clerical staff individually. This divulged to me the inspector's opinion of myself and each of my associates and gave me pointers for my future work and conduct. I can only say that my own report, as compared with the others, although not entirely free from criticism was, on the whole, quite satisfactory to me. Thus I was transferred from the bank to the office of Dun, Wiman & Co., in whose service I remained for about a year and a half. During this period Mr. Donald Murray, my fiancée's father, died, and about a year later we were married. We started our married life in a modest and economical way, arranging to live with Mrs. Murray. This enabled us to live comfortably and within our means; in fact, it was at this time we commenced to accumulate some savings.

My next move was brought about by unusual circumstances. During the summer of 1876, Halifax was visited by Barnum's Circus, which advertised itself by the usual street parade. The procession came along Hollis Street and turned

around the corner of George Street. The Bank of Nova Scotia was the second building from this corner. I must now explain that Mr. Thomas Fyshe, who was second agent of the Bank of British North America in New York during my stay there, was now cashier and general manager of the Bank of Nova Scotia, having recently succeeded to that position on the death of Mr. Menzies, his predecessor. At the time of the circus procession Mr. Fyshe was absent, inspecting one of the branches, and the office was in charge of the next ranking officer, known as the accountant. The whole office staff went to the door of the bank to see the procession, but their vision was obstructed by the crowd that gathered, so they locked the bank door and moved in a body up to the corner. While they were thus engaged, a sneak thief rang the doorbell at the other end of the bank building, which communicated with the apartments above the bank, occupied by George Anderson, the janitor, and his wife. Mrs. Anderson, the only person in the premises, answered

the doorbell, and was told by the man that he had dropped a valuable paper through the grating on the sidewalk and that he wanted to go down to the basement to recover it. She told him to wait and she would go down and get it for him, but he said she wanted to see the procession, and pushed past her to the stairs leading to the basement. He passed through the basement to the stairway leading up to the bank, which he ascended, and thus getting into the office with nobody in it, he helped himself to practically all the money in the cash drawers of the two tellers, somewhere around \$40,000, as I recall it. He wore a linen duster coat, supplied with numerous inside pockets, in which he carried off his spoil. At the same time the office of the provincial treasurer in the Government building on the next block was entered and robbed of a considerable sum. It became apparent later that a gang of sneak thieves had come to the city with the circus, as a cash box taken from the treasurer's office was found behind a pile of stones on a wharf and in it were found the

specification forms which had been on the bundles of notes taken from the bank. There was some clever detective work done by the local police, who got track of a man answering to Mrs. Anderson's description of the man whom she had admitted to the building. He went to a barber's shop where he had his hair cut and his beard shaved off. He was traced to the railway station and later in the afternoon taken off a train at Bedford, about ten miles out of the city. His identification was positive, and he was later recognized as a professional bank robber from the United States. He was tried and acquitted, as the money was never found, and there was no direct evidence that he did anything while on the bank premises beyond that for which he had asked the privilege of entering, namely, to get the paper he dropped through the grating. A year or two afterwards, however, he was tried and convicted for robbing a bank in Boston in broad daylight.

Chapter VI

*My Career in the Bank of Nova
Scotia*

CHAPTER VI

MY CAREER IN THE BANK OF NOVA SCOTIA

THE day following the robberies referred to in the preceding chapter, Mr. Fyshe returned, and it was decided to discharge the accountant and the two tellers. He sent for me and offered me the paying teller's position, with a salary of \$1,200 a year, which I promptly accepted, having a strong desire to return to my former calling. Thus commenced my career in the Bank of Nova Scotia, which lasted for twelve years.

The next incident which I vividly recall occurred after I had been about six months in the bank. Our first child was born, and a day or two after that event, Mr. William Fay, a friend, called in the evening to inform us that a like event had occurred in his family. He informed me

that he had entered his yacht for the races which were to take place the following Saturday afternoon, and it was arranged that if I could get through with my work in the bank in time I would meet him at the dock at the hour appointed and join his crew. Fortunately for me, I had a heavy morning's work, paying the school teachers, a monthly job, in addition to my regular work. The appointed time passed before we got the day's work balanced, and the races started without me. The yacht was capsized by a squall, and four out of the crew of five were drowned, including Mr. Fay. As I could not have saved myself, not being much of a swimmer, if I had kept my conditional appointment, I would have been drowned with the others.

The next outstanding event affecting my life's story proved another stroke of good fortune, as it took me over that bridge so difficult to cross in a banking career which leads from a clerkship to an official position. I had been paying teller for less than a year when I was called into

Mr. Fyshe's office and told that he had just received a telegram from Mr. James Murray, the agent at Yarmouth, Nova Scotia, stating that as he had diphtheria in his family, he was quarantined and could not go to the bank. He requested that someone from the head office be sent to take charge of the agency during his enforced absence. Mr. Fyshe asked me if I thought I could manage it, to which I replied that I would like to have the opportunity. He asked when I could go, and I answered by the first train out. He then instructed me to go. There was no train until the next morning, and it only went as far as Digby, from which place I had to proceed by stage coach. It, therefore, took me the better part of two days to get there. After I had been there for a few days I received a letter from Mr. Fyshe, telling me that the branch should be inspected and reported upon, and as he was overcrowded with work he instructed me to make an inspection report in detail to him and the board of directors. This is where the opportunity I had of copying

the inspector's report in the Halifax branch of the Bank of British North America proved to be of great advantage to me. It was the only inspector's report I had ever seen, and it was photographed in my memory in full detail. I, therefore, made an elaborate statement and report of the business of the branch, modeled closely after the report I had thus in my mind. The business of Yarmouth at the time was in a very precarious condition. The principal business was and had been the building and management of wooden ships of all sizes. These ships were principally owned by retired sea captains, and were scattered over the world. Yarmouth was said to own more vessel tonnage per capita than any port in the world. It had been a very profitable business, and many of the owners were reputed well off. It had, however, been overdone, and steel vessels built on the Clyde at Glasgow, Scotland, were rapidly supplanting the wooden ships. The earnings of the wooden ships fell off very materially, and the business had become unprofitable.

The owners kept themselves afloat financially by borrowing from the local banks, of which there were two, besides the branch of the Bank of Nova Scotia. This they did by endorsing each other's notes, until the banks were loaded with accommodation paper of this kind, and it was practically impossible to get to the bottom of the individual liabilities of any of them. They had apparently all to sink or swim together. In the end, some years later, the banks had practically to release endorsers from their liabilities as such, and look solely to the promissors, who were their direct borrowers. Thus each borrower was held responsible for his individual debts and was released on his endorsements for others. Owing to the stringency of money, the ships, many of which were getting old, were not kept in good condition, and were going to sea unseaworthy, so that shipwrecks became abnormally numerous. To make matters worse, the insurance on them was all placed in local mutual companies formed by the vessel owners themselves. There

were eight or ten of these, and all were practically insolvent. Every loss of a vessel, therefore, came right back on the local community, which was gradually becoming worn out financially. The insurance companies accepted endorsed notes for premiums, which found their way into the banks, in order to raise money to pay losses. This was the situation as I found it and as I reported it to the directors. Very careful management was necessary to avoid heavy losses at the branch. A few months later I was sent back to Yarmouth to help Mr. Murray in the liquidation which was then taking place. Many failures occurred, and the branch met with some losses, but the bulk of the loss fell on the two local banks, both of which had finally to go out of business. Business must have recovered since then, as Yarmouth has increased in population and is today supporting four branches of Canada's largest banks.

After my report had been sent in, I was instructed to stop over at Digby, Annapolis and Kentville, three branches, on

my way back to Halifax and to make inspection reports on each of them. This took me about two weeks, and when I returned to the head office I found Mr. Fyshe and the directors so well pleased with my inspection reports that I was made general manager's clerk and acting inspector. In this capacity, as already stated, a few months later I returned to Yarmouth and spent four or five months assisting Mr. Murray in the management of the branch.

My next move was brought about by similar conditions developing at another seaport, namely Liverpool, along the coast from Yarmouth. Two local banks in this small town failed; one of them, the Bank of Liverpool, had been in existence for several years. The other, the Bank of Acadia, had been launched in a desperate effort to save the situation, but it only lasted a few months. The principal business of Liverpool was shipbuilding and lumbering, and in addition to the shipping situation already described, the lumber was exhausted and the land from

which it had been cut was so rocky as to be practically useless for cultivation. There was nothing but a small fishing business left. The business and financial situation was, therefore, desperate. The Bank of Liverpool failed, and the Bank of Nova Scotia was appointed liquidator by the court. I was ordered from Yarmouth to represent the Bank of Nova Scotia as official liquidator in charge. Mr. John A. Leslie, my former senior in the Royal Bank of Scotland, St. Andrews, and who, as already stated, was responsible for my coming to Canada, had for several years been cashier of the Bank of Liverpool. He had been appointed as an experienced banker in an effort to pull it through the rapidly developing situation already described, but the task had been beyond him as it would have been beyond anyone else. I regret to say he did not greet me very cordially on my arrival, but rather resented his former apprentice acting in the capacity to which he had been assigned. He made no effort to assist me in my unpleasant task and for a time made

it rather uncomfortable for me. He lived in the bank home, which was above the bank, and was connected through the hall by a door with the manager's room. The only thing I did, so far as I know, was to put a couple of bolts on the inside of this door to insure my complete possession of the bank premises. He took great offense at this, but I am glad to say that two or three years later, when he was returning to Scotland, sailing from Halifax, he came to see me, apologized for his attitude towards me and said that on looking back on it all he could see that I had performed my unpleasant duties with every consideration for him, and we parted good friends.

My first duty was to make a detailed statement of the bank's condition and a report on its assets and liabilities. I had to establish a branch of the Bank of Nova Scotia to take the place of the defunct Bank of Liverpool. Under the conditions as they existed, it was practically an impossibility at the time to do a profitable banking business in the community. I re-

mained in Liverpool for a little over a year, by which time the defunct bank's assets were pretty well realized or put in shape for realization, and such desirable business as there was had been secured for the branch bank, which is still in existence. There only remained the collection of the double liability from such of the shareholders as did not go through bankruptcy, which a large percentage of them did. This was a job for the lawyers, and after a long drawn-out legal fight, lasting five or six years, it was finally won by the official liquidator, and such of the shareholders as could pay had to do so. The local business situation must have recovered and greatly improved, as another of the large Canadian banks has since established a branch in Liverpool.

I was then ordered to Woodstock, New Brunswick, where it had been decided to establish a branch, and I was chosen to open and organize it. Woodstock is near the border of the State of Maine. It was then an active business center, and the bank, which was the first

to be established there, soon acquired a fairly good paying business. The principal business was lumbering, but it was also the center of a large and good farming area, and many of the farmers were in comfortable circumstances. It has continued to grow and to prosper, and there are now three branch banks in it competing for business. I was able to secure an office for the bank in the principal business block, but I could not for some time secure a home for my family. We had then two children. Fortune favored me in this respect however. The tenant of a house owned by the sheriff failed in business, and his furniture had to be sold. By renting the house and purchasing the furniture as it stood, I secured a home in which we were very comfortable during our stay of about a year and a half. After we had been there for six months, a disastrous fire occurred, which cleaned out practically all the buildings, principally residences, between the corner where we lived and the principal business block, already mentioned, in which the bank was

located. Assistance in the form of donations of money came in from all parts of Canada and from Chicago and some other cities in the United States. I was appointed by the mayor a member of the committee in charge of this fund and acted as its treasurer. It was distributed among those whose property was burned and helped greatly in rebuilding the devastated district. I thereafter took an active part in advocating and securing for the town a system of water supply known, as I recall it, as the Holly system, and the bank purchased an issue of bonds for the purpose of paying for it. I was just beginning to feel like a permanent citizen and to interest myself in public affairs, when I was notified of my appointment as inspector for the bank with headquarters in Halifax. While I was pleased with the promotion, I had considerable regret in leaving Woodstock, where our stay had been a very pleasant one and where I had made for myself a standing in the community which was recognized by the business men, who tendered me a well-attended dinner at

the hotel. At this dinner I was honored with some very complimentary speeches and presented with an address numerously signed, and a gold watch and chain. I found another tenant for the house, of which I had taken a lease, but no single purchaser for the furniture, which had to be sold by auction at little or no loss, however, on what it originally cost me.

I left Woodstock in 1880 and for the next four years I was inspector of the bank with headquarters in Halifax, but I was traveling fully three-fourths of my time. The bank was establishing branches in the Maritime Provinces, and it was part of my duties to make preliminary investigations as to the opportunities for establishing branches and later to make all the necessary arrangements including renting and fitting up offices in the towns in which it was decided to open them. In this way I organized five or six branches during my four years as inspector.

In the summer of 1882, just ten years after leaving Scotland, I got two months'

vacation to return thither and visit my parents and have them become acquainted with my wife and two children. We sailed from and returned to Rimouski on the St. Lawrence by the Allen line S. S. Parisian. Our visit was principally with father and mother in the old home at St. Andrews, but we made short trips to Glasgow to visit Mrs. Forgan's cousin, Alexander Murray, of Carson, Murray & Co., chartered accountants. Mr. Murray was then a bailie of the city of Glasgow and later became its honorary treasurer. We also stayed a few days in Edinburgh, where we attended the wedding of my brother, John, to Miss Jane Fisher. John was then minister of the Free Church of Scotland at Cullen, where we went and were on hand at his manse to meet him and his bride when they returned from their honeymoon. We also spent a few days in London at the home of my uncle, David R. Forgan, then a department manager in "Whitleys," the big London dry goods store of those days. We were most hospitably received by all our relatives and

friends, and we returned after a most enjoyable trip.

Shortly after our return from Scotland, the failure of F. Shaw & Brothers, tanners, in Boston, occurred. They were said to be the largest tanners in the world at that time. Their tanneries were scattered throughout Maine. They also had a plant in Quebec, Canada, and a hemlock bark extract plant at Woodstock, New Brunswick. The Woodstock branch of the bank was a creditor for what was then considered quite a large amount. Its claim was made up of sixty and ninety-day drafts drawn by the various tanneries on the firm in Boston. The St. Stephen's Bank of St. Stephen, New Brunswick, and the Bank of New Brunswick at St. John, were similarly creditors, but for smaller amounts. I went to Boston duly authorized to represent these three banks at a meeting of the firm's creditors.

At this meeting I remained quiet until towards the end of it. A creditors' committee had been appointed to investigate the firm's affairs and report to a subse-

quent meeting. Several creditors made speeches criticizing some of the firm's actions and transactions just prior to making the assignment. I then arose and complained bitterly that the son of a deceased member of the firm, representing it in Houlton, Maine, had driven over to our Woodstock branch and negotiated a draft on the firm in Boston for a very considerable amount on the very day the assignment was made. He was present in the meeting and I intimated what action we would take if we caught him back in Canada and dared him to cross the border again. When I sat down someone arose and moved that "that red-headed man from Canada" be added to the investigating committee. This caused some merriment, but the motion was seconded and unanimously adopted. Subsequently, at the first meeting of this committee, I was elected secretary of it, and the investigation was placed under my charge. With the assistance of a number of clerks, I went to work in the directors' room of the Globe National Bank, which was

given me by Mr. Billings, president of that bank, and chairman of the committee. It took more than a month to complete the report of this investigation, and when completed it contained an inventory of the companies' properties in Boston and at their tanneries, with an approximate estimate of their value. The firm had assigned for the benefit of their creditors to Mr. Wyman, one of their head employees. The assignment gave the creditors the right to name someone else to act with Mr. Wyman as co-assignee and at a subsequent meeting the creditors elected me to that position. The firm offered a compromise, which was not satisfactory to the committee, who advised against its acceptance. The offer was raised, however, and a compromise was finally effected. In the course of my investigation I discovered that the tannery at Vanceboro belonged to a separate firm, composed of Thaxter Shaw, the youngest of the brothers, and the Boston firm. This was questioned and opposed for some time by the Shaws' lawyer, but in the course of my investigation, I found

the articles of co-partnership. This was an important discovery for the three banks I represented as they all held drafts drawn by the Vanceboro firm and accepted by the Boston firm, so that they had a claim against both estates. The Vanceboro firm was practically solvent, so that on these drafts my banks were paid in full, while, of course, they had to accept the compromise on the other drafts they held. I was kept in Boston about five months on this business and was voted by the committee \$5,000 for my services and a generous allowance for my expenses. As I was working for the bank and receiving my regular salary, the \$5,000 I thus earned went to the bank, and to that extent reduced its loss, but I was graciously allowed to keep what I got for my expenses, which being about twice what they really were, I did not fare so badly and was convinced of the soundness of the old Scotch proverb: "It is an ill wind that blows nobody good."

Not long after I returned from Boston I was sent to Charlottetown, Prince

Edward Island, to inspect the Union Bank of Prince Edward Island. My report formed the basis of a consolidation of that bank with the Bank of Nova Scotia. This bank had two branches—one at Summerside and one at Georgetown. These branches, along with the head office in Charlottetown, were absorbed by and became branches of the Bank of Nova Scotia with George MacLeod, cashier of the Union Bank, as manager of the Charlottetown branch. About a year after this consolidation George McLeod, while returning from a visit to the Summerside branch, was quite seriously hurt in a railway accident. This kept him away from business for several months and permanently injured him, resulting in his retirement and finally in his death a few years later. During the three or four months of his absence I took charge of the Charlottetown branch. Mrs. Forgan with the children, then three in number, joined me at Charlottetown. It was during the summer months, and we have very pleasant recollections of our stay. We entered into

a very satisfactory arrangement with Mr. Roland Fitzgerald, then a leading lawyer and later a judge on the Supreme Court bench, to occupy his residence which was located a mile or two from the city, while he took his family away for their summer vacation. He had a small farm, a fine garden, two horses, a phaeton and a cow, along with a man to look after them and to drive me to and from the bank when I did not feel like walking the distance. This was a new style of living for us, which we enjoyed immensely. A wonderful development of banking facilities has taken place since those days in the small island of Prince Edward; the other two local banks then doing business have gone out of existence, but there are now thirty-two branches of large Canadian banks doing business in twenty-two different localities on the island, eleven of these are branches of the Bank of Nova Scotia and seven of them are located in Charlottetown.

About this time a vacancy occurred in the cashiership of the Union Bank of Halifax, and the position was offered to me.

One of the directors went to St. John, New Brunswick, where I was at the time inspecting the branch of the Bank of Nova Scotia there, and tendered me the position. Shortly after returning to Halifax from Charlottetown we lost our infant daughter by death. I was called in from an inspection trip just in time to see her alive, as she died that night. This caused me to wish for a position that would enable me to stay at home with my family and made the Union Bank cashiership more tempting than it would otherwise have been. I was, however, induced to decline it by the prospects held out to me by the president, general manager and one of the directors of the Bank of Nova Scotia.

Some time before I left Woodstock, a branch of the Bank of Nova Scotia was opened in Winnipeg, Manitoba, with Mr. Ernest H. Taylor as manager. He had been accountant at the head office in Halifax from the time of the robbery. This branch was opened at the time of a wild real estate boom, and before it had been running very long I was called in from an

inspection trip and dispatched to Winnipeg to investigate some loans which had been made and were turning out badly. I made my report, which was far from encouraging, and returned to Halifax with it. Business at the branch went from bad to worse, and as the bank was steadily getting deeper into the mire, I was sent out again to take temporary charge. Shortly thereafter Mr. Robert Stevens, then manager of the branch of the Bank of British North America in Chicago, and a friend of Mr. Fyshe, was appointed manager. I remained in Winnipeg until Mr. Stevens arrived and was installed in this new position. Under his management matters did not improve, and within another year Mr. H. C. McLeod was transferred from the branch at Amherst, Nova Scotia, to Winnipeg to clean up the business and really to wind it up. In September, 1885, it was decided to close the Winnipeg branch and to make the experiment of trying a loaning and sterling exchange business in Minneapolis. Mr. McLeod was instructed to make arrangements for closing up the

Winnipeg business and for establishing himself at Minneapolis. Shortly thereafter Mr. McLeod proceeded to Minneapolis and a little later I was sent there to make the necessary preliminary investigation along with him and to start the business if there should be encouragement enough to do so. Mr. McLeod and I spent several weeks in making this investigation, and commenced doing some business. We were both greatly impressed with the opportunity afforded for making good loans in Minneapolis, and strongly recommended that the experiment should be made. I was so thoroughly impressed with the prospects that I proposed to Mr. McLeod that we exchange positions, he to become inspector in my place, and I to be agent at Minneapolis. He agreed to this and the proposition was submitted to the head office. After some negotiations this was finally arranged. Mr. McLeod returned to Halifax to take the position of inspector and I remained in Minneapolis as agent. In a very short time a very considerable business was worked up

in collaterally secured loans, bank rediscounts and in foreign exchange. The foreign exchange business consisted of buying the miller's bills drawn against shipments of flour. This latter business we did principally through the local banks which we furnished with daily quotations. We also did a profitable business in purchasing at a discount the Canadian currency, which the banks in Minneapolis and St. Paul accumulated in considerable volume. This we gathered up from the banks once a week and shipped back to Canada. The business developed so fast that Mr. Daniel Waters was soon sent out to be my assistant. I had no opportunity of returning to bring out my family from Halifax, and had to arrange that they should come out along with Mr. Waters, which they did.

I continued to act as agent for four years, and there is little to say about the business beyond the fact that it was successful and profitable and entirely free from losses. Two incidents occur to me which showed the high grade of the busi-

ness done. After we had been in business for about two years, one of the largest grain elevators in Minneapolis was completely destroyed by fire. We were carrying a large line of its elevator receipts as security for loans. We were, of course, covered by insurance, but the press reports of the fire caused considerable alarm at the head office, from which I received a wire calling for full particulars with an estimate of our probable loss. Within twenty-four hours I was able to reply that all loans secured by the burned elevator receipts had either been paid or other good collateral had been substituted for them by the borrowers, who desired the custody of the insurance policies, as they preferred to settle with the insurance companies themselves without us as intermediaries. Nothing could be more satisfactory. The other incident was the failure of a bank in St. Paul, for which I had discounted a line of its customers' paper. Again I had a wire from head office asking for particulars and an estimate of probable loss, to which I replied that every note redis-

counted for the failed bank would be paid at maturity (which they were), or, if they preferred, I could sell the notes at once to another bank in St. Paul without endorsement at one per cent. per annum above the rate at which I had discounted them.

In the summer of 1887 I was called upon by a committee of directors of the Northwestern National Bank, Minneapolis, who offered me the cashiership of their bank from the first of the following January. At that time Mr. Wells, the president, proposed to retire, and Mr. S. A. Harris, the cashier, would be promoted to the presidency. They offered me just double the salary I was getting from the Bank of Nova Scotia. As my family was increasing, two boys having been added to it in Minneapolis, their offer strongly appealed to me, and they had no difficulty in securing my acceptance of it. I immediately tendered my resignation to the Bank of Nova Scotia to take effect at the end of the year. The general manager expressed the idea that I should not have accepted the new position without giving

him an opportunity to compete with it, and the president wrote me a very courteous and kind letter, telling me that if I should not find the new position to my liking to bear in mind that I could return to the Bank of Nova Scotia where there would be a good position ready for me.

Preparatory to my new position, I declared my intention of becoming an American citizen, and at the end of the year my connection with the Bank of Nova Scotia came to an end.

Chapter VII

*My Connection with the North-
western National Bank
Minneapolis*

CHAPTER VII

MY CONNECTION WITH THE NORTHWEST- ERN NATIONAL BANK, MINNEAPOLIS

ON January 1st, 1888, I entered upon my duties as cashier of the Northwestern National Bank, Minneapolis. I soon discovered that its system of bookkeeping was obsolete and quite inadequate to keep pace with its rapidly growing business. My first job was, therefore, to establish a modern system of bookkeeping. In this I was ably assisted by Mr. C. T. Jaffray, then a bookkeeper in the bank, and very soon thereafter its assistant cashier. He had been trained in the Canadian Bank of Commerce and was exceptionally intelligent and efficient. He has since made a splendid record as a banker, rising to the presidency of the First National Bank of Minneapolis, a position he recently gave up to become president of

the Minneapolis, St. Paul & Sault Ste. Marie Railway. He is now also chairman of the board of directors of the \$10,000,000 Agricultural Credit Corporation, organized to co-operate with the War Finance Corporation, for the purpose of serving the agricultural interests of the Northwest. I think I should also mention here Messrs. E. W. Decker and Joseph Chapman, who were two of my juniors in the bank, entering it as boys from school. They both gave promise of the record they have since made. Mr. Decker has risen to the presidency of the bank, and Mr. Chapman to the vice-presidency. The latter retired, however, some years ago to become vice-president and general manager of Donaldson & Co., the leading retail dry goods house in Minneapolis.

After I had been about a year in my new position, Mr. S. A. Harris retired from the presidency to become a member of the firm of F. H. Peavey & Co., in the grain business. Mr. George A. Pillsbury was elected president in an honorary capacity. Mr. T. B. Casey had for some

years been vice-president, also honorary. The management of the bank, therefore, fell into my hands as cashier.

The following figures taken from the annual statements of the Northwestern National Bank show the wonderful growth of the bank during the past generation:

On January 1, 1888, when I became its cashier, the capital was \$1,000,000; surplus and undivided profits, \$285,491; deposits, \$2,958,819.68. On January 1, 1892, when I left it, the capital was \$1,000,000; surplus and undivided profits, \$418,032; deposits, \$3,191,708.85. On January 1, 1924 (including the figures of the Minnesota Loan & Trust Co., its affiliated institution) the capital was \$4,000,000; surplus and undivided profits, \$5,022,511; deposits, \$81,104,234.

During my long banking career I have not hesitated to do business with strangers, such as cashing their checks, when they could satisfy me as to their identity and respectability. I have, of course, frequently had to decline such applications,

sometimes when I felt sure a swindle was contemplated, and sometimes when I decided I had better give myself the benefit of the doubt. Only once was I imposed upon, but fortunately I protected the bank from loss by the way I handled the transaction. This was when I was cashier of the Northwestern National Bank, and the circumstances were as follows:

A man in the uniform of a private in the United States Army presented to Mr. Hopkins, the paying teller, two certificates of deposit issued by a bank in Helena, Montana. My recollection is that one was for \$1,500 and the other for \$1,000. He asked Mr. Hopkins if he could get them cashed, and was told that he could not unless he was properly identified. He told his story so plausibly that Mr. Hopkins referred him to me. He told me that he was visiting Minneapolis on furlough and would be in town for another week; that he had been offered a piece of real estate at a price which he thought would make a better investment for his money than keeping it in the bank,

and he wished to draw his money to pay for it. He was a particularly good looking man, very polite, and a smooth talker. I told him we could not cash the certificates for him unless he satisfied us that he was the party named in them as the depositor. He asked if we could not collect them for him, but was told that if we did so we would be responsible to the bank that issued them for the correctness of his endorsement. He then told me that when he deposited the money he left his signature with the bank for the purpose of identification when he should wish to withdraw it, that the bank would have no other means of identifying him even if he were to present it personally, as they had never seen him before or since. He said: "Why cannot I endorse the certificates in your presence and you send them on, informing the bank that you saw me do so, and ask them to send you the money if they are satisfied that the endorsement is genuine?" This sounded reasonable to me, and I said, "All right, you endorse the certificates and I will forward them for collection."

He did so, and to my surprise his signature was in German characters and the name was a German name. I had thought him English, as he had a decided English accent. On my mentioning this he assured me that he was German, but had lived in England for several years and had acquired the accent.

I forwarded the certificates to the bank that issued them, with the information that a man dressed in the United States Army uniform, a total stranger to me, had endorsed the certificates in my presence, and asked me to forward them for collection. I told them that if they were satisfied with the endorsement and would remit the amount to us we would pay it to the man who had made it. In a few days we received remittance of the amount and turned it over to the soldier, who was very profuse in his thanks for what we had done for him.

I supposed the incident closed, but several weeks later an army officer, accompanied by a sergeant from Fort Snelling, near Minneapolis, called at the bank.

They had some telegrams with them, which disclosed that they had been in communication with the bank in Helena which had issued the certificates. The sergeant claimed to be the owner of them and said they had been stolen from his trunk, where he had kept them for two years. He had wired this fact to the bank and asked that payment of them be stopped. He received a reply that the certificates had been paid, having been negotiated through the Northwestern National Bank. I told them the circumstances as I have here related them, and showed them a copy of my letter forwarding the certificates to the bank. I assured the sergeant that as he had not endorsed the certificates, nor received his money from the bank in which he deposited it, he had a perfectly good claim against the bank for it. The officer asked if I thought I could pick the man, who had got the money, out of a company of soldiers. Both Mr. Hopkins and I assured him we could. It was accordingly arranged that we should go to Fort Snelling that afternoon and have all the soldiers

there on parade before us. This we did, but the man was not among them. Later another sergeant showed us a photograph which we both recognized at once as that of the swindler. It turned out, however, that he had robbed the Fort Snelling post office two or three weeks previous and absconded. He had been traced to France, from whence he was not brought back for either offence, perhaps because neither was an extraditable crime. In the room formerly occupied by the rascal were found a considerable number of sheets of paper on which he had practiced and made himself proficient in writing the sergeant's signature. One of the sergeant's duties was to write orders which he had to sign and put on the bulletin board, and there the forger had got the signature. The sergeant also remembered having told him of his deposit in the Helena bank, and of having left his signature with the bank for the purpose of identification when he should want to withdraw his money. The bank did not at once admit its liability, and a lawyer had to be retained, but the matter

was not allowed to go to court. The bank paid the amount with interest, and thus the incident was closed.

I enjoyed my official position in Minneapolis and found the city a most delightful place in which to reside. I was content and had no idea of leaving either, but fate had a still further change in store for me. We kept our principal Chicago account with the First National Bank there, and in the late summer of 1891, when passing through Chicago en route for New York, I called to pay my respects to Mr. Lyman J. Gage, who had recently been promoted from vice-president to president of the bank. In conversation with me Mr. Gage entered into most minute inquiry as to my career from boyhood up to that time, especially as to my banking experience. This struck me as rather odd, and when I left him I remarked to Mrs. Forgan, who was waiting for me in the outside office, that if Mr. Gage went as minutely into the records of all the bankers who called upon him, he must be an encyclopedia of knowledge in

regard to them. Although he did not commit himself in any way, I formed the impression that there must be some ulterior motive behind his minute inquiries. Shortly after I returned to Minneapolis, I had occasion to write Mr. Gage about some ordinary matter of business between the banks. He replied that he had no doubt the matter could be arranged, but that if I could conveniently come to Chicago soon, he would like to talk it over with me. Again I suspected an ulterior motive in his wanting me to come to Chicago, as there was nothing in connection with the matter I had written him about necessitating a personal interview between us. I, therefore, arranged to call upon him again, when he told me that his official organization was not in good shape and that he would have to bring a man into the bank from the outside. Mr. Kingman, his second vice-president, had recently died, and Mr. Symonds, his vice-president, was in very poor health. He told me that a committee of directors had visited Minneapolis and St. Paul to look into

my standing and reputation and that his board now stood ready to elect me a vice-president of the bank if I was prepared to accept the position. I naturally felt very much flattered, but although the position and the pay both appealed to me, I did not accept his offer at once. I told him how I felt, but that I would want to return home and consider it for a few days before I would give him a definite answer. To this he agreed, and after returning to Minneapolis and talking it over with my wife and my directors, I arrived at the conclusion, as they did, that I could not afford to refuse the offer, although the directors were prepared to meet the increase in salary. Shortly afterwards, on Mr. Gage's invitation, I returned to Chicago and met the directors of the bank at dinner at his house. It was then arranged that I should be elected a director of the bank at the next annual meeting of shareholders the following January and to my new position as a vice-president at the meeting of the directors to be held immediately thereafter. As already stated, Mr.

Gage had recently been elected president, succeeding Mr. Samuel Nickerson in that position. In December, prior to the annual meeting, Mr. Gage was seized with a sudden attack of appendicitis on board the train on his way to New York. He was traveling with the board of directors of the World's Fair, of which he had been president, but which position he had surrendered, due to the work devolving upon him in the bank in consequence of the death of Mr. Kingman and the serious illness of Mr. Symonds, the two vice-presidents already referred to. This caused Mr. Nickerson to request me to come to Chicago about two weeks earlier than I had arranged for.

Chapter VIII

*My Career in the First National
Bank, Chicago*

CHAPTER VIII

MY CAREER IN THE FIRST NATIONAL BANK, CHICAGO

ON the morning of January 2, 1892, I reported at the First National Bank, Chicago, and assumed the duties of my new position for about two weeks before I was elected to it. Mr. Symonds was still coming to the bank every day, but was not in condition to do so. Shortly afterwards he went South, where he died, and I became the sole vice-president. It was towards the end of February before Mr. Gage recovered sufficiently from his operation to return to his duties at the bank. The public interest evinced in him, the numerous inquiries we received about him, and the daily bulletins issued in regard to his condition showed his great popularity in the community, as well as throughout

the country. I believe he was the most highly respected citizen of Chicago at that time.

We were having a period of easy money just then, and my greatest difficulty was to keep the bank's funds employed. I was able to loan some money on wheat in Minneapolis, through my acquaintance with that line of business and my connections there, but idle money accumulated in the bank in spite of my best efforts. When Mr. Gage returned, I told him of this condition and apologized for it. I remember his encouraging answer. He said: "Don't apologize; under the circumstances in which you have been placed, the fact that the doors are open and business is going along as usual shows that you know your business." It was indeed a trying position, for I, a total stranger, had to assume responsibility for practically every loan made. My greatest difficulty was getting acquainted with the bank's customers, so that I could do business with them intelligently. I gradually came to know them, however, and, of

course, after Mr. Gage returned, the work was much less strenuous.

It will be remembered, at least I will never forget it, that the following year, 1893, was the year of the World's Fair and of the currency panic throughout the country. A visit at night to the fair was a wonderful relief, of which I availed myself as often as possible, frequently going there with my family or other friends to dinner. The memories of the grandeur and beauty of the fair and the restfulness of it all, notwithstanding the crowds, will always remain one of the pleasantest memories of my life, while my duties at the bank form memories of a very different kind. The fair served us in two ways. It helped us out materially with currency through the money brought into and spent in Chicago by the crowds of visitors, and it relieved us of the nervous and physical strain caused by the panic. Matters are never so bad that they could not be worse.

In the fall of 1892 I was one of seven who organized the Chicago Golf Club. We rented land for our first links at Bel-

mont, where the abandoned railway station on the C., B. & Q. Railway served us as our clubhouse. The railway company gave us this privilege for the nominal rent of \$5 per year. During 1893 little or no progress was made in the development of either the golf club or the game. The World's Fair and the panic monopolized public attention. In 1894, however, we got well under way, and the year following or the year after that, the club bought a farm at Wheaton and moved there, where it is still located. The development of the game of golf has kept pace with the development of the city, both of which are almost inconceivable. There are now in Chicago and the surrounding suburbs about sixty-seven private and twenty-nine public golf courses. Being one of the few of the original organizers of the game in Chicago who are still alive, I take considerable pride in having been frequently referred to as the father of the game in the Middle West. The leading spirit in its organization and development, however, was Mr. C. B. McDonald, then a broker

on the Chicago Board of Trade. Mr. McDonald was educated at St. Andrews, Scotland, where his uncle was professor of mathematics in the university. He had, therefore, learned the game like myself on the old St. Andrews links, and he was by far our best player and our first captain. I was treasurer for a good many years. Mr. McDonald has since moved to New York and has been prominently active there in the development of the game, the laying out of new courses, and the organization of new clubs. I am considerably older than he is, however, so he will not be jealous of my claim to the title of father of the game in the Middle West. Long life to him; he has done more for the game probably than any other man in America.

I held the position of vice-president under Mr. Gage for four years. In 1897 Mr. Gage was appointed Secretary of the Treasury by President McKinley and resigned from the bank presidency. Unfortunately at that time I was just recovering from a severe attack of typhoid malaria caused by an escape of sewer gas

in the house in which I lived. The family had been spending a vacation at Cape Cod, and the house was closed during our absence. On returning, two of my sons, the housemaid and I became ill from the poisonous gas with which the second story of the house was saturated. I had arranged to attend the convention of the American Bankers' Association at Atlanta, Georgia, and was on the program for an address. I attended the convention and made the address, but I returned a very sick man with a high fever. It was the first serious illness I had ever had. The other members of the family soon recovered from it, but it got a strong hold of me. I went to Lakewood New Jersey, to convalesce, but had five or six relapses of the fever while there and another after I returned home. I then got into the hands of the late Dr. Favil, who told me he had to use heroic methods to save my life. After his treatment of me I had no return of the fever, but I have never been as robust in health since as I had been up to that time. I went to Scotland for a few

months to try the effect of my native air, but I returned in an anemic condition. I had been ill for about nine months and it seemed doubtful if I was ever again going to be fit for the responsibilities of my position. It was just at this juncture that Mr. Gage became Secretary of the Treasury. I returned to work, but was in poor condition for it. An arrangement was, therefore, made by which Mr. Nickerson again assumed the presidency, and I continued as vice-president. This arrangement lasted until January, 1900, by which time I had recovered my strength and was elected President, Mr. Nickerson retiring and moving to New York to live. In the meantime I had taken up with Mr. Nickerson the fact that his ownership of enough of the stock of the bank to give him practical control of it was retarding its growth and progress. The stock could seldom be bought on the market, and it was impossible to acquire a substantial interest in it. New banks were being started, and our best customers were becoming interested in them as stockholders. They

were leaving us to become, in many instances, directors and in more instances customers of the banks in which they could acquire a financial interest. My arguments so impressed him that he gave me an option of 7,000 shares of the bank at \$300 a share, the understanding being that I should syndicate it among those whose permanent interest as stockholders it would be to the bank's benefit to secure. This I had no difficulty in accomplishing, with the result that some of our best customers were thus tied to the bank by mutual interest, and a considerable number of new customers were secured, some of whom became directors. I limited the sales to not more than 500 shares to one person, except to myself. Mr. Nickerson said I should have a substantial interest in the bank's stock and offered to take my note for as many shares as I would care to own up to 1,000 shares, holding the stock as collateral security. I thus acquired 1,000 shares in the bank, which with subsequent investments in the same stock, have formed the principal foundation of such



FIRST NATIONAL BANK BUILDING AS IT WAS PRIOR TO THE
ERECTION OF PRESENT BUILDING

accumulations as I have since made. The net profit of this original investment, plus the profit on the rights which have since pertained to it and which I exercised, has been figured at \$868,090 over and above interest at 5 per cent. on all payments from the day on which they were made to the present time. By multiplying this amount by seven, the aggregate profit made by the Nickerson syndicate can be ascertained.

Having stated that my investment in First National Bank stock has formed the principal foundation on which my accumulations have been based, it seems fair and proper that I should also mention another stock the profits on which have materially augmented them. I refer to the stock of the American Radiator Company, my investment in which came about in a rather interesting way. In 1900 Mr. C. M. Woolley, president of the radiator company, sold me the house at 1415 Dearborn Avenue, which belonged to his mother-in-law and which has since been my home residence. This transaction put me on a

friendly footing with Mr. Woolley, of which I took advantage to solicit him for a share of his company's banking business. The time was opportune for my doing so, as he was just then considering an expansion of the company's banking facilities. The company had only been organized a few years prior to that time through the consolidation of several smaller companies and Mr. Woolley had recently been elected its president. To establish the company's credit with the bank, Mr. Woolley made me a minute statement of its affairs, disclosing what it had already accomplished, what it was then doing and what he expected it to do. I was so favorably impressed with the company's condition, its business and its prospects as well as with Mr. Woolley's masterful ability that I made a moderate investment in its stock, the quoted market price of which at the time was \$65 bid and \$70 asked for its \$100 shares. Incidentally, I may here remark that in addition to regular cash dividends of generous proportions, the company has since 1912 distributed to its

shareholders 130 per cent. in stock dividends and that notwithstanding these facts its shares, par value \$25, are now selling at \$100. A short time thereafter I was asked by Mr. Woolley to fill the vacancy on his board of directors caused by the death of Mr. W. T. Baker. I was thus placed in touch with the company's affairs and gradually increased my stock holding until I acquired a substantial interest in it. The rapid expansion of its business and the profits it earned closely paralleled those of the First National Bank. What I desire to emphasize, however, is that my accumulations have been made almost entirely out of these two stocks of concerns with the affairs of which I was in a position to keep in close touch. What other investments I made were too small to be of much account. I never speculated in stocks with the expectation of making a profit by quick turns in their market price. All my stock purchases have been for permanent investment. I have never learned to read the tape of the stock-ticker and have no desire to.

In addition to his wonderfully successful record as president of the American Radiator Company, Mr. Woolley made for himself a national and enviable reputation in his war work as chairman of the War Trade Board. He was for twelve years one of my directors in the First National Bank, a position from which he had to resign in November, 1922, on his designation by the Federal Reserve Board as a Class C director of the Federal Reserve Bank of New York. His eminent career has been a source of gratification and pride on my part that we have thus been such good friends and business associates during all these years.

When Mr. Gage retired from the bank he, of course, also retired from membership of the Clearing House Committee, and I was elected to fill the vacancy thus created, a position to which I was re-elected annually for the succeeding twenty-five years. Four years thereafter I was elected by the Clearing House Committee as its chairman, an honor which was annually conferred upon me for the next

ensuing twenty-one years. At the annual meeting of the Clearing House Association in 1922 I declined re-election to membership on the Clearing House Committee. I had intimated my intention of so doing at a dinner tendered to Messrs. Ernest A. Hamill, John J. Mitchell and myself at a Bankers' Club dinner at the Drake Hotel on December 17, 1921, where life-sized portraits of each of us, painted by Louis Betts, were unveiled and presented to the Clearing House Association, to be hung on the walls of its assembly room. Messrs. Hamill and Mitchell had recently retired from the Committee, the former after serving on it for twenty years, the latter for eighteen years. I probably cannot give a better account of the outstanding incidents connected with the work of the Clearing House Committee, during my twenty-five years' connection with it, than to repeat what I said in my address at the dinner referred to. This I will do in a subsequent chapter on my connection with the Chicago Clearing House Com-

mittee and will proceed here with my First National Bank career.

In the spring of 1895, on my recommendation, a system of pensions for employees was established by the bank. On retiring from the presidency, Mr. Nickerson expressed to me his wish to do something personally for those men who had served with him in the bank and were growing old in the service, and asked my advice as to what he could do. I pointed out to him that they would have an advantage over the younger men in their relations to the pension fund then being established, from the fact that without having contributed to it, some of them were approaching the age when they would be entitled to pensions while the younger men would have to contribute to it for many years before they would be entitled to the same privilege. It seemed, therefore, only fair that a contribution of a round amount should be made to the fund on their account to provide for this inequitable condition. Mr. Nickerson at once saw the point and handed me his

check for \$10,000 to be used for this purpose. The fund was designated the "Bank Pension Fund," to which the officers and employees were required to contribute, in monthly payments, 3 per cent. of their annual salaries. The bank has contributed regularly to the fund, and it has steadily grown until it now amounts to more than \$2,000,000, while the accumulated contributions made by the officers and employees amount to \$475,000. There is, therefore, now invested in good securities over \$2,500,000, the income from which is available for the payment of pensions, and it is a notable fact that the annual income from investments has so far exceeded the annual amount paid out for pensions. There are fifty-five on the pension list for this year, 1924, whose pensions amount to \$113,000, while the estimated income amounts to \$125,000, which leaves a profit of \$12,000 to be added to the pension capital account. The amounts paid by the officers and employees are placed to their credit individually until such time as they begin to draw a pension,

when the balance at their credit is transferred to the capital account and their payments cease. If they leave the service prior to that time they can, under certain conditions, withdraw what they have paid in. It should be said that the fund includes the First Trust & Savings Bank and the National Safe Deposit Company, both institutions contributing to it on a pro rata basis with the First National Bank. The system has worked well and has proved to be very beneficial to both the bank and its employees.

In the spring of 1900 it became necessary to strengthen the official organization of the bank by the addition of another vice-president. As was the case when I was elected, a wide scrutiny was made for a suitable man of experience. The position was offered to three outstanding men in the banking field, but they were so anchored to their official positions in the banks they were in that they could not be moved. These were Mr. E. F. Swinney, president of the First National Bank, Kansas City; Mr. A. L. Ordean, presi-

dent of the First National Bank of Duluth, and Mr. J. C. McKeon, vice-president of the Commercial National Bank, Chicago. Shortly after this it was proposed by some of the directors that I should see if my brother, David R., then president of the Union National Bank, Chicago, could not be secured for the position. I spoke to him about it, with the result that it was finally proposed that we should see on what, if any, basis the two banks could be combined, with the understanding that he would come over with his bank and become our senior vice-president. At this juncture, he and I received word from our old home that our mother was fatally ill and that our only chance of seeing her again would be to go there soon. We, therefore, left together for Scotland on this sad mission and have always been glad that we did so, as our mother died a few months after we bid her good-bye, followed by our father two or three weeks later.

It was arranged between us that we would each take with us the national bank

examiner's last report on our bank, along with a statement of assets in sufficient detail, to enable us to judge approximately of the condition of the two banks. When we got on the steamer we exchanged reports and statements, but decided we would not discuss the subject until on our return voyage, when we would take it up seriously. On our return voyage, after considerable discussion and negotiation, we decided on terms mutually satisfactory. We drafted an agreement, to be revised by our attorneys, and submitted to our boards of directors for their approval. The attorneys informed us that the agreement, as we had drawn it, was clear and explicit, and they had no suggestion or change to make in either its form or its language. The agreement was, therefore, duly submitted to both boards and agreed to by them, and the banks were consolidated on September 1, 1900. It was provided that there should be a new issue of \$2,000,000 First National Bank stock, \$1,000,000 of which went to the existing stockholders of that bank at \$150 per

share, and the other \$1,000,000 went to the shareholders of the Union National Bank and was used in liquidating 90 per cent. of their \$2,000,000 outstanding stock, the remaining 10 per cent. to be liquidated from certain assets not turned over to the First National. Thus, the capital of the First National Bank was increased from \$3,000,000 to \$5,000,000, and its surplus and undivided profits from \$2,673,000 to \$3,517,000, while its deposits were increased from \$50,000,000 to \$67,000,000. My brother held the position of senior vice-president until the end of 1906, when he resigned to organize and accept the presidency of the National City Bank of Chicago.

In the spring of 1902 the Metropolitan National Bank, after a prosperous existence of eighteen years, was absorbed by the First National. The capital of the First was then \$5,000,000 and that of the Metropolitan \$2,000,000. The surplus and undivided profits of the former \$3,768,000, and of the latter \$1,626,000. To effect the consolidation on an equitable

basis by bringing the book value of both stocks to an approximate equality, \$1,000,000 of First National stock was issued to its stockholders at par, after which \$2,000,000 of the stock was issued to the Metropolitan stockholders in exchange at par for their Metropolitan stock. After the consolidation was consummated, the new capital was \$8,000,000 and the surplus and undivided profits amounted to \$6,095,000, while the deposits were \$93,000,000.

With these two mergers the business of the bank had entirely outgrown its quarters, and a new edifice became imperative. The building it had occupied for twenty years and which it controlled through ownership of the entire capital stock of the National Safe Deposit Company, was built by that company on ground leased from the School Board. This lease had run for twenty years and had twenty years more to run, with a proviso that the rental was subject to a revaluation of the property every ten years. A revaluation had just been made which about trebled the

annual rental, but on technical objections to the appraisal the matter was taken into court, and the rental was reduced by about one-third. Under these circumstances, it became necessary to secure a substantial extension of the lease or abandon the location at the corner of Dearborn and Monroe Streets. We secured an option on the corner of La Salle and Monroe, now occupied by the Northern Trust Company. A satisfactory ninety-nine year lease was, however, finally arranged with the School Board. We then purchased the adjoining property on Monroe Street, on which stood the Montauk Block and the building of Bradner, Smith & Company. These purchases gave us a frontage of one hundred and twenty-three feet, which added to the frontage of our leased property of one hundred and eight feet, gave us a total frontage of two hundred and thirty-one feet on Monroe Street. The frontage on Dearborn Street is one hundred and ninety-one feet. On this property an eighteen-story building was erected, containing ten and one-half millions of cubic

feet at a cost of approximately \$6,000,000. This was finally financed by \$3,500,000 National Safe Deposit Company stock, a bare majority control of which was held by the bank, and an issue of \$2,500,000 4 per cent. bonds redeemable at the rate of \$50,000 per annum. This building served the purpose of the First National Bank and that of the First Trust & Savings Bank, which will be referred to more fully later, until 1923, when the business of the allied banks again outgrew the quarters provided for them. The building to the west of ours on Monroe Street and extending to the corner of Clark Street was erected by the American Trust & Savings Bank, and later became the property of the Fort Dearborn National Bank, from which on October 28, 1919, it was purchased by the First Trust & Savings Bank, which now occupies its banking quarters in addition to the entire ground floor of the First National Bank Building, except that part occupied by the National Safe Deposit Company vaults and coupon rooms. At the present writing, it

is in contemplation to combine the two buildings. For this purpose it became necessary to get complete ownership of the National Safe Deposit Company stock by the First National Bank, which has been accomplished. The proposed plans contemplate the closing of the present main entrance to the two buildings on Monroe Street and removing the banks of elevators in each. This will enable the First Trust & Savings Bank to extend its office clear from Dearborn to Clark Street over the entire ground floor of what will then be one building. The First National Bank's office on the second story and its gallery on the third, will be connected with the corresponding floor and gallery of the other building. The two banks will, therefore, occupy the entire first three stories of the combined building. Fortunately, the architect of the other building having in mind a possible combination of the buildings at some future time, saw to it that the floors of both buildings were exactly on the same level. Another main entrance to the combined building will be

located on Clark Street, similar to the one on Dearborn Street. This will be accomplished by an addition to be erected on Clark Street to the north of the present building, on a piece of property which could not be acquired by the American Trust & Savings Bank when its building was erected, but has since been purchased, and is now owned by the First Trust & Savings Bank. When these changes have been completed, the consolidated building will contain around 14,800,000 cubic feet, of which the two banks will occupy about 4,400,000 cubic feet.

As an evidence of the inadequacy of the bank's plans to provide office room for its future growth, I recall a conversation I had with Mr. Nickerson when he was on a visit to Chicago after the first half of our new building had been erected and was being occupied, while the old building was being wrecked to make way for the second half. He said: "Well, Forgan, you have more nerve than I would have to put up a bank building of this size." My answer was: "Why, Mr. Nickerson, the nerve we

are showing won't compare with the nerve shown by you when you put up the old building. At that time the bank had less than one hundred employees. It has now over five hundred and they have been working in the office space which you provided for one hundred. We had to hang galleries from the ceilings all round the office to provide working space for them." The fact is that the increase of the bank's business entirely outgrew the space provided for it within twenty years in each case, so that the nerve or the lack of it was pretty equally divided. Looking back now, it can be seen that our mistake was in not acquiring the entire block bounded on the east by Dearborn Street, on the west by Clark Street, on the south by Monroe Street and on the north by an alley. The number of employees in the allied banks at present is 1,387.

Prior to the enactment of the Federal Reserve banking law and its subsequent amendments, national banks, especially those in central reserve cities, could not do a savings bank or a trust company busi-

ness, nor could they lawfully deal in bonds secured by mortgage on real estate, while state banks organized more especially as savings banks and trust companies were active competitors in the field of commercial banking. In the development of our business we were constantly being hampered by these restrictions. We had a well organized and profitable bond department, but its operations were restricted by the prohibition against dealing in bonds secured by real estate mortgages. We could see ample opportunity for acquiring savings deposits and for doing a trust business if we had the necessary facilities.

A plan was, therefore, devised to organize a state bank, to take over our bond department and to do a savings and trust business. It was, of course, essential that the two banks should be identical in their ownership, and to accomplish this the plan evolved was as follows: 1. A dividend of $12\frac{1}{2}$ per cent. was declared on the capital of the First National Bank. 2. The unanimous consent of the shareholders was obtained to the investment of the mil-



FIRST NATIONAL BANK AND FIRST TRUST & SAVINGS BANK
NOW CONNECTED AS ONE BUILDING

lion dollars thus acquired in the stock of the First Trust & Savings Bank, to be held by the president, three vice-presidents and the cashier of the national bank as trustees for the shareholders of record of that bank and their successors in ownership. 3. The beneficial interest of the stockholders thus created to be evidenced by the endorsement on the stock certificates of the national bank. 4. The stock of the two banks to be inalienable during the life of the trust. 5. All dividends declared by the state bank to be paid to the national bank for pro rata distribution among its shareholders of record on the date of such payment. 6. The directors of the savings bank to be directors of the national bank.

By this plan the ownership of the two banks became identical, every shareholder in the national bank having a pro rata interest in the state bank, such interest being evidenced by endorsement on the back of the national bank stock certificates, so that if a shareholder should sell his national bank stock certificate he also

would sell along with it his pro rata interest in the state bank. The state bank was a success from the start. In the first seven days after it commenced business, on December 28, 1903, it opened 1,089 savings accounts and had a total deposit of \$3,195,591. It only accepts savings accounts and special interest-bearing deposits. At the first call of the state auditor for publication of a statement of its condition on March 22, 1904, it showed \$2,033,720 savings deposits and \$5,279,839 other deposits. It commenced with a very modest official staff. Under me as president, the active officers were Emile K. Boisot, vice-president and manager; David V. Webster, secretary, and Robert D. Forgan, treasurer. On the twenty-ninth of March, 1904, Louis Boisot was appointed trust officer. By the close of the first year deposits had reached a total of \$17,931,066, and it was found that the office space provided for it had become totally inadequate. The adjoining frontage on Monroe Street had to be secured by buying up the tenants' leases

at a premium. The growth of the business has been phenomenal, far exceeding all anticipation of its promoters.

To demonstrate this it is only necessary to state that in the twenty years of its existence the bank has accumulated out of its earnings, capital, surplus and undivided profits aggregating \$14,787,000, besides having paid out in cash dividends, \$8,100,000. On December 31, 1923, it had on its books 160,673 savings accounts aggregating \$74,485,904.83, and its other deposits amounted to \$32,317,519.98. Mr. Emile K. Boisot was promoted to the presidency of the bank on January 11, 1916, when I became chairman of the board, and he held this position until December 31, 1918, when he retired on his pension. His brother, Louis Boisot, in charge of the trust department, was promoted to the vice-presidency on January 14, 1913, and held that position until December 31, 1921, when he also retired on the pension list. I must record here my tribute to the efficiency and ability of these two gentlemen, which were of a very

high order—the former as a banker, the latter as a lawyer and trust officer. Mr. E. K. Boisot's money-making capacity, which was quite exceptional, contributed largely to the bank's successful record, and Mr. Louis Boisot worked up a most enviable reputation for our trust department, the success of which has paralleled the banking departments. It may be stated that the official staff of the bank has grown from its original four to thirty-five officers and it now employs 412 clerks.

To return to the parent institution, the next requirement which faced its management was the organization of the official staff for the most effective team work. This necessity and its final successful solution can best be stated by recording here my report to the directors in regard to it at their meeting of November 29, 1904. At this time the first half of the new building was finished and occupied and the second half was approaching completion. My report to the directors was as follows:

Chicago, June 28, 1904.

To the Directors of The First National Bank,
Chicago, Ill.

Gentlemen—The proper organization of the work of the official staff of the bank is a subject that has been frequently discussed with me by individual members of this board.

The absorption of the Union National Bank in 1900 and of the Metropolitan National Bank in 1902, together with the rapid growth of the bank's business, has interfered with the proper development and effective organization of the work of the officers. Our chief aim has been to hold the business acquired through these consolidations and the efforts of the officers who came to us from these banks have been more especially directed to this end. In this we have been quite successful, more so than we thought possible when the consolidations were under contemplation. The bank's business had really outgrown the facilities of its office in the old building prior to the consolidation with the Metropolitan National Bank, and after that event were wholly inadequate. All this has kept us in more or less confusion, preventing a proper and effective organization of the work. Our efforts have been too diffuse and have lacked concentration and grasp. This has led to losses that might have been avoided had the

watchful care and thought of the individual members of the staff been more directly concentrated on and restricted to such a portion of the business as each could reasonably be expected to master.

In other words, our work has been generalized rather than specialized. Our efforts have not been properly nor economically directed to accomplish the best results from the large volume of business we do and responsibility has been so divided that it has been impossible to fasten mistakes on anyone in particular. Besides this there has not been sufficient opportunity for the development and training of young men to fill the places of the senior officers, when in the ordinary course of events their services will be lost to the bank. All this has been known to me as it has to most of you for some time. Not until now, however, when the facilities of our new office, rapidly approaching completion, afford the opportunity, have I seen my way to so reorganize the work of the officers under me as to get more effective and more satisfactory results from their services.

I now propose to specialize and divide the work by assigning to individual officers the care and management of the accounts of customers in specific lines of business. A senior and junior officer will work together in the management of all the accounts in a particular line of

business. It may be that they will be required to take charge of more than one line, but they will only be held responsible for the accounts in the particular line or lines of business assigned to them, and will be relieved of responsibility for the accounts in other lines, assigned to other officers.

Each senior officer will be responsible for the credits granted in his division. A junior officer will be in constant touch with him and will attend to the details of the accounts under his direction. Both will be expected to use their best endeavor to work up new business in the special lines assigned to them, and will annually prepare a report to the executive committee embracing a statement of the condition of each account, with a report as to whether it is satisfactory or otherwise, also showing how the business of the bank has developed during the year in the special lines of business under their charge. In this way responsibility will be definitely fixed and the management can be judged by results.

I will personally keep in close touch with the business, consulting with the senior officers, criticising the accounts under their charge and maintaining a careful supervision over them just as I have done in the past. This reorganization of the work should enable me to do my part more efficiently than has heretofore been

possible. The reports will be arranged so that two or three lines of business will be reported on each calendar month.

This report met with the unanimous approval of the directors, and the bank's business was forthwith organized under six divisions, each in charge of a senior, assisted by a junior officer. Some of these senior officers were designated managers of divisions, and the juniors assistant managers, but later it was found desirable, so as to afford them their proper professional standing under American bank official nomenclature, to make the seniors all vice-presidents and the juniors assistant cashiers and still later assistant vice-presidents. In addition to these divisions, there are seven departments to care for special features of the bank's business and its work, all in charge of duly appointed officers. This system of organization has worked well and proved highly satisfactory, not only to the bank, its directors and officers but likewise to its customers. Under it we have constantly on the clerical

force a number of men marked for promotion to official positions as vacancies occur or opportunity offers.

There is one department, the auditor's, to which special reference should be made. It was organized in 1897, and Mr. F. O. Wetmore was placed in charge of it. Up to 1899 the bank had been regularly examined by a committee of directors. The job had, however, become too great a task for such a committee. It required the services of an expert, trained in the business. I therefore, suggested to the directors that they select and appoint a competent man for the position of auditor with the understanding that he should examine the bank and its departments from time to time as their representative and bring his reports direct to them, and especially that he should once a year classify all the loans in the bank into five classes for which I adopted dairy terms to readily distinguish them. These terms were: the cream, the sweet milk, the skim milk, the sour milk, and the sediment. They accepted my suggestion and appointed

Mr. Wetmore in this capacity on January 9, 1900. This has been the rule and practice ever since. The auditor when he examines the bank is the direct representative of the board of directors, and as such, for the time being, outranks all the officers in the performance of his duty.

This will be a good time to record the official career of Mr. Wetmore. As already stated, he was appointed auditor for the directors on January 9, 1900. On June 28, 1904, he was appointed assistant cashier. A year later he became cashier and was placed in charge of Division B. In 1907 he was elected a vice-president. In 1908 he was relieved of the management of Division B in order that his services might be devoted to assisting me in the supervision of all the credits of the bank, and finally he succeeded me as president on January 11, 1916, when I became chairman of the board. His steady and rapid promotion gives evidence of his exceptional ability, efficiency, loyalty and integrity. He rose steadily from the position of a junior clerk to the presidency, and his

right to the promotion he received was never questioned by anyone in the bank's service.

The panic of 1907 made the services of Mr. Wetmore, as my assistant in the general supervision of credits, absolutely necessary. The "skim milk" needed constant attention to prevent its becoming "sour". We came out of the panic, however, without serious loss and added \$1,000,000 to surplus account, at the end of it. At the bank's annual dinner, to which it was the custom to invite all who had been fifteen years or more in its service, I delivered a somewhat flowery address, which I will quote here to indicate how we came out of the panic.

We have finished another year's voyage on the great sea of time and our good old ship, the First National, with its sister ships, the First Trust and the National Safe Deposit Company, have come into port undamaged by the stress of the storm they experienced towards the end of the voyage. It is a great satisfaction to us, the officers of these good ships, that we have not only taken care of our

own craft but have been able to afford assistance by throwing out a lifeline here and there, not only to other financial craft of our own description but to many ships of commerce caught in the same storm.

At the beginning the weather was fair, the sailing smooth and the prospects bright for one of the best and most profitable annual voyages in our history. We had not gotten more than half way, however, when clouds appeared on the horizon, which grew darker and darker, until they broke in one of the fiercest financial storms within the memory of man. We were compelled to adopt means for safety and self-protection, to which we were unaccustomed, never before having had to resort to them. Under the administration of a hard-working and devoted Clearing House Committee these means have been so administered in Chicago that they have brought the whole of the Chicago financial fleet through the storm without the loss of a single ship and with but few wrecks among the vessels of commerce. We were not, of course, able to bring our cargo entire into port. A considerable part of our Walsh consignment, or assignment, had to be thrown overboard in the mid-ocean of contingency and some other commercial consignments that went bad on the voyage had to be unloaded into the lifeboat of debit contingent,

from which, however, we look for considerable salvage.

After this trying experience and the buffeting we have gone through, what remains of the cargo is in good condition and the net result of the voyage is highly satisfactory to our own immediate craft and their owners. As we show up in our annual statements no one could think that we had weathered a tornado or breasted a heavy sea. We came into port with colors flying, not a leak sprung, not a sail rent, not a spar broken. Undaunted by our strenuous experience and not unduly elated with our success, but with renewed confidence in our ships and in their organization and with the brightest hopes, we have started out on the voyage of 1908 with full assurance that our past records will be fully maintained whatever conditions may be.

The capital of the First National Bank remained unchanged from 1902 until 1910 at \$8,000,000, and in the meantime the surplus had grown until it was equal to the capital. On April 1, 1910, 20,000 new shares were issued to the stockholders at \$200 per share, thus increasing the capital to \$10,000,000 and the

surplus to the same amount. The deposits by this time had increased to \$111,354,000. At the same time the capital of the First Trust & Savings Bank was increased to \$2,500,000 by a stock dividend of \$1,500,000, after which the beneficial interest of the First National Bank shareholders in the stock of the First Trust & Savings Bank became one share of the latter for every four shares of the former. The surplus of the First Trust and Savings Bank was then \$2,500,000, its savings deposits \$26,892,907, and its other deposits \$20,104,513. By the close of 1910 more than 60,000 savings accounts were upon the books of the First Trust & Savings Bank, and the demand for more space became imperative. The bank acquired something over 3,000 square feet at the northeast corner of the building and moved its trust department into it. Not long thereafter it also secured the space occupied by a tenant on the southeast corner and in order to get more floor space moved its vaults into the basement. It was then occupying 13,600 square feet of floor area.

On December 19, 1911, the directors voted to increase the capital stock to \$5,000,000 by transferring \$2,500,000 from surplus account on the last day of the year. Each shareholder in the First National Bank then owned a beneficial interest of half a share in the state bank for every share he owned in the national bank; this ratio has continued the same to the present time. To enable the First Trust to increase its surplus from \$1,000,000 to \$2,500,000 in 1912, no division of its profits took place that year. In lieu thereof special dividends equal to 5 per cent. for the year on the capital stock of the first National Bank were paid out of its earnings.

As already stated, Mr. E. K. Boisot retired from the presidency of the First Trust & Savings Bank on December 31, 1918, and Mr. M. A. Traylor, then president of the Live Stock Exchange National Bank, was elected to fill the vacancy. I knew that Mr. Traylor had previously been offered two or three important official positions in large New York banks.

He had also very successfully and patriotically organized for the Federal Reserve Bank of Chicago, through the banks of Illinois, an agency for the wider distribution of the government war issues of bonds and notes. The board of directors of the Federal Reserve Bank, of which I was then a member, had selected him for this gratuitous service, and so well satisfied were they with the way he handled it that they decided to ask him to enter the bank's service permanently as its deputy governor. As I had him already in mind for the other position, I took no part in the proposition before the Federal Reserve Bank directors of securing him for that bank. The suggestion, however, accelerated my action, and I promptly put the matter before our executive committee and secured its unanimous consent to offer him the presidency of the First Trust & Savings Bank. As this created a milestone in the bank's career, I will here record the figures of its balance sheet at that time, December 31, 1918, and com-

pare them with those of December 31, 1923:

	1918	1923
Capital	\$5,000,000	\$6,250,000
Surplus	5,000,000	6,250,000
Undivided profits.....	895,000	3,287,000
Savings deposits	52,764,246	74,497,675
Other deposits	15,281,866	32,305,744
Savings accounts open.	99,769	160,550

The bank has, therefore, progressed and continued to grow without interruption.

On July 1, 1920, the capital of the First National Bank was increased to \$12,500,000 by a stock issue of \$2,500,000 to its shareholders at par and at the same time the capital of the First Trust & Savings Bank was increased to \$6,250,000 by another stock dividend of \$1,250,000.

In August, 1919, there was organized as an adjunct to the First National Bank, The First National Investment Company, with a nominal capital. It was expected that this company might serve a good purpose to our customers by participating in the underwriting and distribution of high-grade stocks. This line of business was

active at the time, but was seriously interfered with by the high income taxes soon thereafter imposed, which drove investors having large income into the field of tax-exempt securities, which has flourished ever since to the great detriment of business enterprise. The company only had a few transactions on which it made a small profit, but it is organized and ready for action whenever business in its line revives.

In May, 1920, the First Trust & Savings Bank organized a farm loan department, which was consolidated with its real estate loan department under the management of Mr. Louis K. Boysen, a gentleman of lifelong experience in that line of business. In February, 1922, under the auspices of this department, there was organized the First Trust Joint Stock Land Bank of Chicago, and in July, 1922, the First Trust Joint Stock Land Bank of Dallas, Texas, was organized. These land banks are organized under the Federal Farm Loan Act of 1916, and are both owned by the First Trust & Savings Bank.

The capital of the former is \$1,250,000 and that of the latter \$350,000. The former has up to a recent date made farm loans amounting to over \$21,000,000, and the latter has made similar loans amounting to \$4,526,000. Against these the former has issued debenture bonds amounting to \$17,300,000, and the latter similar securities amounting to \$4,000,000. These securities being tax-exempt have been a popular form of investment.

On the retirement of Mr. Louis Boisot as senior vice-president in the trust department on January 1, 1922, he was succeeded by Mr. Roy C. Osgood, who for several years previously had been a vice-president, ranking next to Mr. Boisot in that department. This department, which was started by Mr. Boisot and a stenographer, has now nine officers and 135 clerks managing trust estates having a property value of \$85,500,000, besides which, as fiscal agent, the bank has in its possession cash and securities aggregating \$398,400,000 and acts as trustee for bond issues amounting to \$405,400,000.

In thus recording the remarkable development of these banks during my official connection with them, I by no means presume to take credit to myself for their wonderful growth. The basis of their success was the corresponding growth of Chicago and the development of banking in it to meet the persistent and urgent need of all lines of business, which pioneered the way for the banks and made their growth possible. I have always had the assistance of an able staff of efficient and loyal officers, to whose co-operation and teamwork much of our success is due; but the most we can claim, and what we do claim, is that we were prepared to take advantage of opportunities as they presented themselves to us and to make the most of them. A short time ago I was asked to address a pioneers' dinner, given by the Chicago Association of Commerce. The subject assigned to me was "The Development of Banking in Chicago," and I think it might be well to reproduce it here to show that the growth of the banks with which I am connected has only been what

might be expected of them as part of the extraordinary development of the banking business in Chicago. The address follows:

Gentlemen—Having lived in Chicago for little more than three decades, it is very flattering to me that I should be asked to speak at a "Pioneers' Dinner". It shows how easily and how quickly the face of things and of people are changed in this age of ours. Thirty years is not even a generation of men, and still I am one of those present who in his own career has seen almost the whole real development of Chicago and its financial history. There have been other pioneer dinners in the history of Chicago, notably the one of May 27, 1879, at the Calumet Club of Chicago, at which were present some of the real pioneers of Chicago, men like "Long" John Wentworth and his associates. But the Chicago which they were celebrating was a town of very limited business interests, and its financial activities were those of a very small business community of only slight interest beyond its own municipal boundaries.

As banks draw their deposits from, and make their loans to, all other lines of business, they grow in size and importance in exact ratio with the growth of general business in the community in which they are located. Hence the financial and commercial growth of Chicago

will probably be better realized and appreciated from the statistical record of its banking development than from any other single source of information. As only five minutes have been allotted to me, it is obvious that I can do little more than give you a few of the most important facts and figures bearing upon the development of the banking business in Chicago.

The real beginning of the banking and financial history of this city may be said to be marked by the organization of the Chicago Clearing House Association, which took place on April 6, 1865. Its total clearings on that first day amounted to \$913,377.26. The total clearings today amounted to \$100,445,965.69. There were nineteen original members, of which three were state banks, only one of which is still a member and doing business, the Merchants Loan & Trust Co., and this also is soon to merge its own identity in a larger organization. Of the twelve national banks, only one is still in existence today, the First National Bank of Chicago. Four were private banks or bankers, all of whom have since disappeared.

The aggregate capital and surplus of these original member banks two years later, that is, in 1867, was recorded as being \$7,364,100 and their total resources as \$24,694,815. By January, 1873, the membership had increased to twenty-seven, of which twelve were new mem-

bers, and of these the only ones still in existence are the Corn Exchange National Bank, the Union Trust Company and the Bank of Montreal, so that of the twenty-seven members in January, 1873, there are only five left today. The capital and surplus of these twenty-seven member banks in 1873 was \$16,590,246. Today there are twenty-four member banks with a capital and surplus of over \$180,000,000, an increase of about 1,000 per cent., while the resources show even a greater development, amounting on June 30, 1922, to \$1,855,102,963, while in 1873 the total resources amounted to only \$45,241,946. Today we have one bank whose individual resources are almost twelve times the aggregate resources of all the clearing house banks fifty years ago, while the aggregate resources of the twenty-four clearing house member banks are at the present time forty-one times the aggregate resources of the twenty-seven member banks of fifty years ago. And it must be remembered that this does not tell the whole story, for the banks of which I have been speaking are the members of the clearing house only. In addition to these we have the Federal Reserve Bank with total resources of \$786,271,000, and ninety-nine suburban banks which are now connected in an affiliated capacity with the Clearing House Association, very few, if any, of which were in

existence in 1873. Their total resources amount to \$273,005,101, which is about six times the aggregate resources of all the member banks fifty years ago.

There are, of course, many other figures which might be given showing the stupendous development of Chicago in a business way. Together with New York, Chicago does a large part of the underwriting of bond issues in the United States and has become a vital factor in international finance. It led the way in the inauguration of clearing house examinations, which has become an important factor in assuring the solvency of our banks.

Most of you who are present are still at the height of your activity and will carry forward the greatness and power of Chicago. May you build upon the solid foundations placed by those who have gone before you, and in expanding the resources and the facilities of your financial institutions and business houses, may you always remember that more important than mere size is the soundness of your financial institutions. For there can be no permanency in a commercial structure whose banks cannot be relied upon to withstand the shocks of crises and panics. If there is anything which the sad aftermath of war in Europe has taught us, it is this lesson, that respect for private property and integrity in business dealings is essential,

not merely for the commercial and industrial prosperity of a nation, but even for the maintenance of civilization itself.

I will close this chapter by giving for the sake of comparison the condensed balance sheet of the First National Bank as of January 1, 1892, and the consolidated and condensed balance sheet of the two allied banks as of January 1, 1924:

CONDENSED BALANCE SHEETS

<i>Assets</i>		
	First National Bank as of Jan. 1, 1892	Allied Banks Consolidated as of Jan. 1, 1924
Loans, discounts and credits	\$16,480,329	\$239,233,452
Government and com- mercial bonds	857,814	51,515,438
Bank building	650,000	5,842,254
Cash resources	14,194,053	92,250,781
	\$32,182,196	\$388,841,925
<i>Liabilities</i>		
Capital	\$3,000,000	\$18,750,000
Surplus	2,000,000	18,750,000
Undivided profits....	1,117,032	7,948,412
Deposits	25,917,532	323,897,016
Letters of credit and acceptances	73,500	13,804,101
Reserved for taxes, etc.	74,132	5,192,396
	\$32,182,196	\$388,841,925

Chapter IX

*The Security Bank of Chicago
and Its Ally, The Second
Security Bank of Chicago*

CHAPTER IX

THE SECURITY BANK OF CHICAGO AND ITS ALLY, THE SECOND SECURITY BANK OF CHICAGO

IN August, 1906, a committee of the business men of the northwest district of Chicago waited upon me and presented a numerously signed petition, urging me to organize a bank for them to take the place of the Milwaukee Avenue State Bank, located on the corner of Milwaukee Avenue and Carpenter Street, which, through fraud and mismanagement, had recently closed its doors. As chairman of the Clearing House Committee I had been through the affairs of the failed bank and could see what a splendid opportunity it had had for successful business were it honestly managed. It was not, therefore, difficult to persuade me to take advantage of the opportunity offered. I agreed to

accept the position of chairman of the board of directors and to supervise the organization of a new bank on condition that I should designate its executive officers. The proposed bank was to start with a capital of \$300,000 and a surplus of \$60,000, by issuing the stock at \$120 per share. I agreed to raise two-thirds of the capital, the other third to be subscribed for by local interests in the district, representation on the board to be in similar proportions. Both divisions of the stock were oversubscribed. The failed bank was being wound up under a receivership, and a part of its assets, consisting of that part of the building it had occupied, the fee to which it owned, along with its vaults, furniture, fixtures, part of its records and the lease it had of that part of its office which it rented was exposed at public auction in open court. Rather strange to say, a Canadian bank, proposing to open a branch, was the only competitive bidder, but it was finally knocked down to us for \$70,000. There was a large safe deposit company business as an adjunct to the

bank. Fortunately, its affairs had not been tampered with, and its "good-will," which I should have mentioned among the assets bought at auction, was worth considerable. The Standard Safe Deposit Company was, therefore, organized to carry on the safe deposit business and to acquire the building in which the new bank became its tenant; the upper story of the building was rented to other tenants. This company was capitalized at \$70,000 and the new bank owned all its stock. These arrangements being completed, the new bank, to be known as the Security Bank of Chicago, opened for business on October 15, 1906. The leading promoter of the bank, who had been active in securing subscriptions to its stock, was Mr. J. C. Hansen, a native of the district and having many friends and acquaintances in it. He had received his bank training in the First National Bank, in which he was then a bookkeeper. He became the first cashier of the Security Bank, and Edward A. Erickson, then manager of the credit de-

partment of the First National Bank, was elected its president.

In July, 1911, the capital of the bank was increased to \$400,000 by an issue of \$100,000 additional stock at \$200 per share which added \$100,000 to its surplus account. This was done in anticipation of an event which occurred in October of the same year. The event referred to was the organization of the Second Security Bank, to do business about two miles north of the Security Bank on Milwaukee Avenue at Western Avenue. This was done to anticipate the trend of business which was clearly moving northward. The Second Security started with a capital of \$200,000 obtained from a special dividend declared by the Security Bank. The two banks were tied together and made identical in their ownership in the same manner that the First National Bank and the First Trust & Savings Bank were united.

In July, 1911, the president, Edward A. Erickson, died, and at the annual election in the following January Mr. Charles H. Meyer, then the state bank examiner

for Chicago, was elected president, and Mr. J. C. Hansen vice-president. Mr. Meyer retained the presidency until November, 1914, when he resigned to accept the position he still holds, that of bank examiner-in-chief for the Chicago Clearing House Association. Mr. J. C. Hansen was then elected president in his place. During this period Mr. Meyer was also president of the Second Security, with Mr. Hansen as vice-president.

Appreciating the advantage to a young man, learning the banking business, of having the opportunity of seeing a bank develop from its incipency to a mature growth, and realizing from personal experience the advantage of having had such an opportunity, which enabled me to acquire a knowledge of the business in all its angles and all its details, which it would have taken me a long time to learn in a large bank, with all its departments segregated and fully organized, I had arranged to have my son and namesake, James B. Forgan, Jr., appointed assistant cashier of the Second Security Bank when it com-

menced business. He had started some years previous as a messenger in the First National Bank and had been developed through the various clerical departments. I wanted him to see the business coordinated and developed on a scale which could be easily grasped in all its multitude of details. Such details are the same in a small bank as in a large one only on a smaller scale. I did not want him to be like a young man I heard of, who, after being several years in a large bank and having progressed to the position of an assistant teller in it, was asked by his father how he was getting along, answered: "Oh, I seem to be getting along all right with my work, but what bothers me is how the bank makes its profits. The money is taken in at the receiving teller's window and paid out at the paying teller's window, and I cannot see that the bank makes anything on its transactions with its customers."

At the annual election in January, 1911, J. B. Forgan, Jr., was promoted to be cashier, and in November, 1914, when

Mr. Meyer resigned, he was elected president. He held this position until January, 1916, when he resigned to accept an assistant cashiership in the First National Bank, and Mr. Hansen became president of both banks.

In July, 1921, the capital of the Security Bank was increased from \$400,000 to \$500,000 and that of the Second Security from \$200,000 to \$250,000, both by the declaration of stock dividends.

When the Security Bank commenced business in 1906, only one other bank was doing business in the district, and its deposits were only \$375,839. Since then there have been organized fifteen state banks, which are all doing business in the district at the present time. Their combined deposits as published on January 1, 1924, amounted to \$73,511,000. The development of the banking business in the district has been most remarkable and competition keen. The opportunity far exceeded my fondest expectation. The two Security banks have done exceedingly well under the circumstances. Their com-

bined deposits on January 1 of this year amounted to \$13,000,000, and their capital, surplus and undivided profits to \$1,464,628.92, only \$560,000 of which was contributed by the stockholders, the balance of \$904,628 being accumulated earnings. This in addition to having paid out \$615,250 in dividends.

The Security Bank has outgrown its present quarters, and a new building is now being erected for it at the northern end of the block in which it is at present located. It will front on Ogden, the recently widened and improved avenue, running northeast from La Grange to Lincoln Park. The building will cost about \$500,000. It will be owned by the Standard Safe Deposit Company, the capital of which will be increased to \$300,000, and the balance will be financed by an issue of first mortgage bonds.

The company has done well under the very keen competition it has had. It owns the safety deposit vaults in the Second Security Bank, also the office fittings of both banks, both being its tenants. The

rents paid it are on a basis which provides for the amortization of the furniture and fixtures accounts within a reasonable time. It has been fairly profitable, having paid the bank in dividends \$45,500, besides accumulating undivided earnings amounting to \$52,307.

Since the foregoing was written, the capital of the Security Bank has been increased to \$700,000 by an issue of 2,000 shares of its stock at par, and the capital of the Second Security Bank has been increased to \$350,000 by the declaration of a stock dividend of 1,000 shares.

Chapter X
Chicago Clearing House
Committee

CHAPTER X

CHICAGO CLEARING HOUSE COMMITTEE

I HAVE already referred to my connection with the Chicago Clearing House Committee and stated that I would devote a chapter to it, quoting the address I delivered at the Bankers' Club dinner upon the occasion of the unveiling of portraits of Messrs. Ernest A. Hamill, John J. Mitchell and myself, Saturday evening, December 17, 1921. Mr. John Fletcher was then president of the Bankers' Club and presided at the dinner. I will quote his address and my response as they appear in a pamphlet put out by the club, giving an account of the night's proceedings. Mr. Fletcher spoke as follows:

In the record of the business life of this city there stands forth in letters of gold the name of James B. Forgan. (Applause.) The influence of that name as an authority on finance

and as representative of sound business principles is international as well as American. In strength of personality, thorough knowledge and ability as a financier and in the extent to which his opinions are quoted and his influence carries weight, Mr. Forgan is one of the most eminent bankers of America. His notable characteristics are: Clear, practical judgment, strong physical and mental fibre, honesty, conservatism, farsightedness, cordiality and dignity. His chief strength is decision of character, the ability to analyze men and situations at a glance, his love of truth; his tastes are domestic, his ideas democratic, his perceptions are almost intuitive and he has the close, firm, intellectual grasp so characteristic of the Scotch people. The Bankers' Club of Chicago is certainly greatly honored in this opportunity to slightly honor him, and I find it very difficult to give adequate expression to my own personal pride in being permitted to present him to this audience upon this occasion. Ladies and gentlemen, a toast to a man, Mr. James B. Forgan. (Applause.)

The members then drank a toast to me, and I responded as follows:

Ladies and Gentlemen—Many years ago—I won't say how many—when I was a boy in Scotland it was the practice there for the fami-

lies to have a wooden bread board which was laid on the table during meal time and from the loaf the head of the family cut slices of bread for those around the table as they were needed. That was to prevent waste. To inculcate the idea of thrift in the minds of the rising generation there were carved around the edges of these bread boards maxims, such as: "Waste not, want not," "Better long little than soon nothing," "Bread is the staff of life," "Better half a loaf than no bread," and so forth.

Tonight one of these maxims comes into my mind as being applicable to the remarks of our chairman about me. The maxim was, "Ca' cannie wi' the butter." Some of you might not be sufficiently acquainted with the Scotch language to catch just the application of that maxim to the remarks he made. The toast-master spread it on pretty thick. If it is too much for any of you let me suggest that you ask my brother David. (Laughter.) He is not any more Scotch than I am, but he is said to be a good deal more Scotchy. I believe he has a stronger burr and besides he has got a reputation for interpreting the Scotch language in Scotch stories that he tells. He is fond of telling Scotch stories, but let me tell you one on him. (Laughter.)

Some years ago when he was president of the Onwentsia Golf Club there was a competi-

tion gotten up and he presented a prize for mixed foursomes. After doing so he immediately proceeded to get the best lady partner he could and entered the competition, with the result that they won his prize. The next morning one of the newspapers in giving an account of the event had as a headline: "Forgan Wins His Own Prize." This attracted the attention of the late John Hamline, whom many of you may remember as being very fond of a joke. He came into the bank that morning and sat down beside David and he said: "David, I ran across a Scotch word and I don't quite understand the meaning of it. What does the word pawky mean?" "Well," said David, "I do not believe you can get an exact synonym for the word 'pawky,' but it means shrewd, sly, cunning, and a bit crafty." "Good," said Mr. Hamline, getting up to leave, "I thought that the man that could win his own prize at golf would know the meaning of the word 'pawky'." (Laughter and applause.)

I assure you, however, Mr. Chairman, that I appreciate very highly the very kind and altogether too flattering words that you have spoken in regard to me. I also feel more grateful than I can find words to express for the very cordial way in which you, my fellow members of The Bankers' Club, and guests received the words that were spoken. Above everything in

my business career I appreciate the confidence the members of the Clearing House Association have shown in me by voluntarily electing me at twenty-five of their consecutive annual meetings to membership on the Clearing House Committee. It is also at once a distinction and an honor to have been elected by the members of that committee for twenty-one consecutive years to act as their chairman. I take this opportunity to thank them for the confidence they have themselves shown in me, as well as for their cordial and never-failing co-operation and support which they have always given me in that position.

Ever since the Clearing House Association was organized in 1865, the work of the committee has been uniformly constructive and has contributed very largely to the development in Chicago of the high banking standards that now prevail among us. I, therefore, regard it as a high honor to have been so long connected with it. The Committee has always enjoyed the harmonious and unanimous support of the members of the Association. So much is this so that I cannot recall a single instance when its recommendations were not adopted.

It is indeed a most gracious and agreeable recognition of the services of those of us who have so long served on the Committee through the strain and stress of fluctuating business

conditions to thus be honored by having our pictures hung for all time in the assembly room of the Association. This practice was started, as Mr. Smith has already said, three years ago, when Mr. Orson Smith retired, after having served forty-six years, probably the longest term of service ever given by anyone in the world in a similar position. (Applause.) Personally I accept the compliment as a high honor, the highest honor within the power of the Association to confer, and I tender you my most hearty and sincere thanks for it.

On an occasion of this kind one naturally becomes reminiscent and retrospective, and is liable to become prosaic. Hoping to avoid the latter, may I recall to you some of the incidents connected with the work of the Clearing House Committee during the past twenty-five years which I hope may prove as interesting to you as they are to me. There are many such incidents, but I will only refer to a few of them.

The first important event of interest was the inauguration of the Bureau of Examinations in 1906. Passing without comment the cause for this act, let me say that we were pioneers in the organization of this kind of service and that our lead has since been followed by similar associations in New York as well as in most of the large cities of the country. The Clearing House Committee was instructed

by resolution of the Association to establish an examination bureau and employ the necessary staff for its official operation. I think you will agree with me that it has since functioned to the entire satisfaction of all the banks connected with the Clearing House Association. Its work and its aims have always been constructive, and the result has been the maintenance of the highest standard of efficiency, conservatism and business ethics among our clearing house banks.

The Committee had some difficulty in finding the right man to take charge of the bureau. It might interest you to know how we finally stumbled onto him. It so happened that Mr. Hamill and I were in New York on the same day and that we met at the National Park Bank. It was on a Saturday just about lunch time and the officers had invited us to lunch in their bank's private dining room. We both accepted and there we met for the first time a Mr. McDougal, who was then a national bank examiner. After a good lunch and a general conversation on general affairs Mr. Hamill and I left the bank, and it being a fine afternoon we decided to walk together down Fifth Avenue to the Waldorf-Astoria. Before we had walked a block I said to Mr. Hamill, "What do you think of that bank examiner whom we met at lunch?" Mr. Hamill replied that he was very favorably

impressed with him. I said, "So am I. What do you know about him?" "Nothing whatever," said Mr. Hamill, "never heard of him before." Neither had I. So we decided to return to the bank for the purpose of consulting with the two vice-presidents, Messrs. Thorne and McKeon, both of whom had been national bank examiners. Their information being highly satisfactory, on our return to Chicago we reported our discovery to the other members of the committee, with the result that we promptly got into communication with Mr. McDougal, invited him to come to Chicago to meet us, and we finally made satisfactory arrangements with him to accept the position of examiner-in-chief of our bureau. The subsequent success of Mr. McDougal as chief examiner for eight years and since then as governor of the Federal Reserve Bank in Chicago, in both of which posts he has displayed great sagacity and ability, has fully confirmed the judgment the Committee then formed in regard to him. (Applause.)

The next outstanding feature of the work of the Committee was in connection with the panic of 1907 when clearing house certificates amounting to \$38,285,000 were issued. We commenced issuing these certificates at the end of October and they were all retired by the end of the following January. These were three

strenuous months for the bankers, but especially so for the members of the Clearing House Committee, who met daily to handle the securities tendered by the banks as security for the certificates. You will remember that at that time, owing to the dearth of currency for payroll purposes and for general circulation, we inaugurated a new departure by issuing and circulating clearing house checks in small denominations. This was done to the amount of \$7,600,000 and of that amount \$7,885 have not yet been presented for redemption. Such of them as have not been burned or otherwise destroyed are doubtless in the hands of historical societies or of curio collectors. It is interesting to recall that the idea of issuing and the method of handling these clearing house checks was the conception of the late Byron L. Smith, at the time president of the Clearing House Association, and father of our present president, Mr. Solomon A. Smith. They certainly tided us over a very difficult period.

About this time I had an interesting and rather amusing experience with President Roosevelt. As the leader of the Democratic party Mr. Bryan was advocating a national system for the mutual guarantee of bank deposits. I had made an address in opposition to it which was published in pamphlet form and pretty widely circulated. I also exchanged

with Mr. Bryan through the press several open letters on the subject. Someone in the councils of the Republican party suggested to Mr. Roosevelt the desirability of taking the wind out of the sails of Mr. Bryan and of the Democratic party at the approaching election by making the mutual guarantee of bank deposits a plank in the Republican platform and such policy was proposed, if not advocated, by some newspapers.

Mr. Roosevelt was seeking information on the subject and someone told him that I had been opposing the idea. He had heard from those in favor of it and he asked me to come to Washington to discuss the matter with him. I, of course, promptly responded and a day and hour were set for an appointment with him. I arrived at the White House in the forenoon and about noon I was ushered into the President's office. He received me with his well-known cordiality. He told me he was going into the next room where the barber was waiting to shave him and this would give me a fine opportunity to talk to him. (Laughter.) He said if I had come to discuss the Panama Canal or some other of his hobbies he would want to do his full share of the talking, but as to the mutual guarantee of bank deposits he knew nothing and he told me to fire ahead and tell him all about it. By this time he was in the barber's

chair and well soaped, which is said to be half-shaved. (Laughter.) It was a new experience with me. (Laughter.) I did not know where to commence or how to address him and I am afraid I made a poor attempt in my effort to enlighten him on the subject. After the shaving operation was finished he asked me to come to lunch with him, where, besides Mrs. Roosevelt and some other members of the family, I remember meeting Admiral Rixie, Major Archibald M. Butts and a senator whose name I do not recall, and Mr. John C. Shaffer, the proprietor of the Chicago *Evening Post*. During luncheon the President told his other guests that he had asked me to come to Washington to discuss with him the mutual guarantee of bank deposits, and in that way started the general discussion of the subject. His comments and questions and those of his other guests drew me out and I had the satisfaction of having him tell me in his usual forceful way, "It won't do, Mr. Forgan. It won't go. We will cut it out." And fortunately it did not find a place in the Republican platform. (Applause.)

I have been reading lately the "Americanization of Edward Bok," and, by the way, you should all read that book if you have not done so. He states that the department of the *Ladies' Home Journal* known as "The President" was conducted for a year by Mr. Roose-

velt, who, while lying in the barber's chair, imparted his views on matters pertaining to the home to Mr. Robert L. O'Brien, then a Washington press correspondent and now editor of the Boston *Herald*. Mr. O'Brien prepared the articles for publication and after being revised by Mr. Roosevelt they were published as "the attitude of the President on those national questions which affected the vital interests of the home." Although a novel experience for me, it was nothing new for Mr. Roosevelt to conduct an interview in the barber's chair. It showed he practiced as well as preached the strenuous life.

The next event which seriously upset the usual course of business so that clearing house certificates were again resorted to was the breaking out of the European war. On the afternoon of Saturday, August 1, 1914, I was playing golf on the links of the Chicago Golf Club at Wheaton when an urgent telegram was delivered to me from Mr. McAdoo, Secretary of the Treasury. He requested that a committee of the Chicago Clearing House should be in Washington on Monday to meet him along with similar committees from the other two central reserve cities, New York and St. Louis, for consultation on the imminent conditions developing in Europe. I dropped my game and as soon as possible got in communication by

telephone with the other members of the Clearing House Committee. I succeeded in getting Messrs. Hamill and Reynolds to agree to meet me at the Union Depot the next day (Sunday) in time to catch the 12.40 train for Washington. I arranged with Mr. Crampton, the secretary of the Illinois State Bankers' Association, who happened to be at Wheaton, to secure the railroad tickets for us and to meet us with them at the depot. I remained over night at Wheaton and came into Chicago in the morning by automobile. My family were away at the time and there was no one in my home but a caretaker. Fortunately, as it afterwards turned out, I had to go home for something I wanted to take along with me and while there I was called to the telephone and found Mr. Woodward, chairman of the New York committee, at the other end of the line. We had learned from the newspapers on Saturday that Austria had declared war on Serbia, that they had begun to bombard Belgrade, and that the Russian army was mobilized along the Austrian frontier, but we hoped diplomatic negotiations going on among the other great powers would prevent the war spreading to a general conflagration. Mr. Woodward had later information, however, and told me that Germany had issued a twelve-hour ultimatum to Russia, which had expired, and that German troops had advanced to the

French frontier, in consequence of which France had ordered a general mobilization of her army. He also informed me that Belgium had appealed to England for diplomatic intervention to safeguard her integrity, and that while France had given assurance to England that she would respect the neutrality of Belgium, Germany would give no such assurance; also that England had informed France that she had refused to acquiesce in the German violation of Belgium, and that the British fleet would give France all the protection in its power, should the German fleet undertake hostile operations against the French coast or shipping. It was, therefore, apparent that a general conflagration of war in Europe was inevitable, involving Germany and Austria on one side, and Russia, Belgium, France and England on the other. Mr. Woodward told me that under these circumstances the New York committee had decided not to go to Washington, but had invited Mr. McAdoo to come to New York as they would have to get ready to meet conditions on Monday morning, the issuing of clearing house certificates being an inevitable necessity. He said he had been trying to get in touch with some of the bankers in St. Louis by telephone, but had not been so far successful. He asked me to endeavor to do so, and to let them know the situation as it had developed. He also requested

me to impart the information to the clearing houses of St. Paul, Minneapolis, Milwaukee, Kansas City and Omaha, and that he would notify the larger Eastern cities. I first tried my best to get in touch with some of our local bankers, but not one of them was at home. They were all at church—I guess (laughter), or on the golf links. You will realize that all this took time, and with nothing whatever accomplished I had barely time left to get to the depot in time to catch the train where Messrs. Hamill and Reynolds were waiting to meet me. My automobile was waiting at the door, so I made for it, but as I stepped out of the house I saw St. Chrysostom's Church across the street and immediately reflected that Mr. Street, manager of the clearing house, would certainly be there. I rushed across the street, into the church, up the center aisle, tapped Mr. Street on the shoulder, told him to get his hat and come with me, which he promptly did. (Laughter.) I asked him to jump into the automobile and told the chauffeur to speed to the depot. On the way there I explained to Mr. Street the situation. I did not think the Committee would go to Washington, but I told him that if they did he must carry out Mr. Woodward's request in regard to notifying the other cities, and that he must get in touch with the other members of the Committee and call a meeting of our own

clearing house by telephone to take the necessary action.

When we arrived at the depot I found my associates on the Committee talking to the conductor and asking him to hold the train a few minutes longer. It was then several minutes past time for starting. I was breathless and as the conductor immediately called out "All aboard" we jumped on the train, where I imparted Mr. Woodward's information. By the time we reached Englewood we had decided that home was the place for us, so we got off the train and returned to Chicago in a taxicab. We found Mr. Street in his office in the clearing house busily endeavoring to carry out his instructions. After luncheon at Rector's restaurant we went into session at the clearing house. We notified the other cities and got into direct touch with the New York committee, who were in session, and who kept us posted as to the developments there. We succeeded in getting a full meeting of the Association at 8.30 that night. At this meeting it was decided to require notices on the withdrawal of savings accounts to pay checks except those for small amounts through the clearing house only, and to commence issuing clearing house certificates on Monday morning. We also sent a telegram to the Secretary of the Treasury requesting that he cause to be issued to the Assistant

Treasurer here \$50,000,000 Aldrich-Vreeland emergency notes in small denominations to be apportioned among the banks in the National Currency Association of Chicago which already had been organized. The amount of clearing house certificates issued reached their maximum on October 15 when they amounted to \$41,890,000, and they were all retired by December 14. These Aldrich-Vreeland notes taken out amounted to \$27,069,990, and they were all retired before the end of January. The necessity for this prompt action and the wisdom of its being taken were demonstrated by subsequent events. The demands for currency and the withdrawal of deposits became very heavy, and but for the banks being thus prepared for just such contingencies a severe currency panic would have ensued. As it was, while there was considerable pressure and some anxiety, there was no panic. With the use of the Aldrich-Vreeland emergency currency we managed to get along fairly well until November 16 when the Federal Reserve Bank opened for business and such makeshifts as clearing house certificates and Aldrich-Vreeland emergency notes were discarded—for all time we believe. Our national banking system, which had been denounced as the worst in the world, had overnight changed into the Federal Reserve System, probably the best in the world. (Applause.)

To a large extent the new system unified the national and state banking systems and consolidated their reserves. The war necessities of European countries created heavy demands in this country for all kinds of supplies and caused a boom in general business. For some time the Federal Reserve Banks' facilities were but little availed of. A strong prejudice prevailed among the banks against showing rediscounts in their statements. As business increased, however, and the demands for credit became urgent they got bravely over their prejudices and used the facilities of the system rather more freely. (Laughter.) After the United States got into the war the financing of the government, not only for its own war expenses but for its loans to the allies, became the most important function not only of the Federal Reserve Banks but also of the member banks. This caused a tremendous expansion of credit and the system was placed under as severe a strain and test of efficiency as could possibly be conceived. These requirements of the government were successfully financed and if they had not been there is a great probability that the war might have had a very different ending, and it does not now seem possible that they could have been successfully handled under our old banking system. The Federal

Reserve System was, therefore, providentially inaugurated just in the nick of time.

We look back now and say, "What would we have done without it?" It has successfully stood the test of its practical efficiency in the greatest emergency and under the heaviest strain conceivable. It has recovered its strength as to its gold reserve and is already functioning normally.

As matters are now progressing at the International Disarmament Conference at Washington it seems to me that we may indulge in the hope if not in the positive belief that never again will our banking system be put to as severe a strain and test of efficiency as it has withstood during the last four years.

Now to you, my associates in the Chicago Clearing House Association, this is my valedictory. You have met tonight to do honor to three Clearing House Committee veterans. My two long-time associates on the committee, Messrs. Hamill and Mitchell, have already withdrawn from active service with completed and spotless records for faithfulness and efficiency. Their retirement produced a tidal wave of popular recognition in which I have been permitted to share. They have gone out on the crest of this wave and I feel that I should also go while the going is good. (Laughter.) Moreover, I am getting along in years, and recognizing the

fact that the days of my greatest usefulness are past, I have no desire to block the onward and upward path of progress. I know that there are younger men among you ready and able to carry on the work which I now wish to be relieved of. I am, therefore, going to ask you to permit me to retire from membership on the Clearing House Committee at the end of my present term and to elect a younger man to succeed me at the annual meeting next month.

Let me, therefore, again thank you for the support you have given me and for the kindly consideration you have shown me all through my career as chairman of the Clearing House Committee as well as for the high honor and compliment conferred upon me tonight at the close of that career. (Applause.)

At the annual meeting of the Clearing House Association in January, 1922, my official connection with that organization ceased. Complimentary speeches were delivered on the occasion by Messrs. E. D. Hulbert, John J. Mitchell, Arthur Reynolds and Fred H. Rawson, all of which beautifully engrossed in book form, the frontispiece of which was my picture, artistically sketched by Mr. C. L.



CLEARING HOUSE COMMITTEE TAKEN DURING THE PANIC OF 1907

(Left to Right—Orson Smith, John J. Mitchell, Ernest A. Hamill, J. B. Forgan, George M. Reynolds, Byron L. Smith)

Ricketts, were later presented to me to be retained during my life and handed down to future generations of my family as an heirloom and memento of my long and very pleasant relations with the banks and bankers of Chicago.

I appreciated very highly this compliment and all that was said and done on that occasion, but what affected me most and afforded me the greatest gratification was the speech of Mr. John J. Mitchell, who had risen from a sick-bed to attend the meeting and deliver it. His remarks were warm, hearty and, I know, sincere. Probably no banks in Chicago felt each other's competition more keenly than did the Illinois Trust & Savings Bank and the First National Bank along with the First Trust & Savings Bank. The Illinois Trust competed keenly with the First National for commercial accounts, while the First Trust was a keen competitor with the Illinois for savings deposits and trust business. It was, therefore, most gratifying that Mr. Mitchell and I had formed and maintained a close friendship

for each other and had for twenty years co-operated harmoniously, through the Clearing House Committee, for the general welfare of banks and banking in Chicago. We met frequently at Clearing House Committee and other meetings where our interests were mutual and discussed affairs of general or special interest in the frankest and most friendly manner. In this way our friendship was of great mutual benefit, and I think I can say for us both that although our business competition was keen, and we both knew it, neither of us was ever guilty of attempting to take an undue or unfair advantage of the other.

My relations with Mr. Ernest A. Hamill, president of the Corn Exchange National Bank, during our twenty years' association as members of the Clearing House Committee were equally harmonious and friendly. Our banks were likewise keen competitors for business, both earned a reputation for conservatism and met with satisfactory success without producing the slightest jealousy and without creating anything but the most friendly

and neighborly feelings between us. We discussed questions as they arose in the most frank and friendly way and learned to entertain the highest respect for each other's opinions.

The fact is that the relations existing among the members of the Clearing House Committee during all my connection with it were most friendly and harmonious and the perfect unanimity that existed among them was as wonderful as it was beneficial to the banking interests they represented.

Chapter XI

Currency Commission, American Bankers' Association

CHAPTER XI

CURRENCY COMMISSION, AMERICAN BANKERS' ASSOCIATION

FROM the time I came to Chicago in 1892 the necessity for new banking and currency legislation was appreciated by most bankers, and the subject became a live one. My first connection with the discussion was in 1894 when I was asked, along with Mr. W. T. Baker of the Chicago Board of Trade, to discuss before the Commercial Club of Chicago what was then known as the Baltimore Plan for asset currency, which was being introduced into Congress. I was complimented on this address by President Cleveland, whose attention had been called to it by Mr. James H. Eckels, then Comptroller of the Currency. Mr. Cleveland said it gave him new light on the subject. From that time on the subject came up for dis-

cussion at every meeting of the American Bankers' Association, and I became more or less identified with the movement for currency reform. In 1902 Charles N. Fowler, chairman of the Banking Committee of the House, Charles G. Dawes, Comptroller of the Currency, and Horace White of New York made addresses dealing with the problem at the American Bankers' Association convention. The chief difference of opinion in that day was between advocates of a highly taxed emergency currency and those of a low taxed credit currency. As a result of this agitation there was appointed at that meeting held in New Orleans a special currency committee, a forerunner of the Currency Commission appointed in 1905 which worked on the problem and made annual reports until the Federal Reserve System was organized and running smoothly. Mr. A. B. Hepburn of New York was chairman and I was vice-chairman of this Commission. Its reports appear in the proceedings of the various annual conventions of the American Bankers' Associa-

tion. The panic of 1907 gave a fresh impetus to the reform movement, and the National Monetary Commission was appointed by Congress, after which the Currency Commission of the American Bankers' Association acted largely in an advisory capacity to the governmental body, with which it held frequent conferences in Washington. Outside my work as a member of the Currency Commission, I made several addresses, notably one on currency reform before the St. Louis Commercial Club, January 26, 1907. I appeared before the Committee on Banking and Currency when it was holding hearings on the Aldrich bill, April 15, 1908, and made a statement after which I was cross-examined by the Committee. I made an address before the Executive Council of the American Bankers' Association at Nashville on May 1, 1911, on "Possibilities of Senator Aldrich's Suggestions for Monetary Legislation." This address was printed and largely circulated among banks and bankers throughout the country. Again on November 22, 1911, I ad-

addressed the American Bankers' Association convention at New Orleans on "The Mobilization and Control of the Reserves of the Country," and strongly urged the adoption of the National Reserve Association which was proposed by Senator Aldrich's Monetary Commission. In July, 1913, I wrote and circulated a pamphlet containing a Review of the Proposed Banking and Currency Bill, simultaneously introduced in the Senate and the House of Representatives June 26, 1913.

A short time prior to the introduction of this bill, the Committee on Banking and Currency of the United States Senate formulated thirty-three questions regarding needed banking and currency legislation. The Currency Commission of the American Bankers' Association held a special meeting at Atlantic City, N. J., on June 18 and 19, 1913, and minutely answered these questions, sending copies of their answers to the President of the United States; Hon. Robert L. Owen, chairman of the Committee on Banking and Currency; Hon. Carter Glass, chairman of the

Banking and Currency Committee of the House of Representatives, and Hon. William G. McAdoo, Secretary of the Treasury, and to all the members of the American Bankers' Association.

It is probably true that without the active participation of the committees and members of the American Bankers' Association in the discussions preceding the passage of the Federal Reserve Act, this law would have assumed a very different form from the one it finally did. Practically everything which now appears in the Federal Reserve Act was foreshadowed in the discussions of the Currency Commission.

Chapter XII

*My Connection With the Federal
Reserve System*

CHAPTER XII

MY CONNECTION WITH THE FEDERAL RESERVE SYSTEM

AMONG the preliminary proceedings towards the organization of the Federal Reserve System, there took place the election of directors, and I was elected a director of the Chicago bank, by the member banks in Class B of the Chicago district, known as District No. 7. The bank opened for business on November 16, 1914, and a little later I was appointed by the board of directors a member of the Executive Committee and their representative on the Federal Advisory Council. This Council met for organization in Washington, December 15, 1914, when I was elected its president, Mr. L. L. Rue of Philadelphia its vice-president, and my secretary, Merritt H. Grim, as its secretary, the latter being its only paid official.

The president and vice-president, ex-officio, along with Messrs. J. P. Morgan of New York, Daniel G. Wing of Boston, and W. S. Rowe of Cincinnati, were elected members of the Executive Committee. By-laws were adopted and this organization remained intact during the following six years of my service on the Council, except that in 1918 Mr. Morgan retired and was succeeded by Mr. A. B. Hepburn, and Mr. F. O. Watts of St. Louis was added to the Executive Committee, and in 1920 Mr. Wing of Boston was succeeded by Mr. Philip Stockton. The Executive Committee held its first meeting in New York on December 13, 1914, three days after the organization of the Council. It became the practice for the Executive Committee to formulate and submit to the Council for its approval the advice to be given to the Federal Reserve Board on the various topics submitted to it by the board or otherwise brought before it for consideration. All such topics were, of course, fully discussed by the Council and a consensus of opinion arrived at, prior to

their being referred to the Executive Committee, to put the final conclusions into words. During the six years of my official connection with the Council the four statutory meetings were held in Washington each year and one special meeting on January 17, 1917. At these meetings the Council advised the Federal Reserve Board on 169 topics submitted by the latter and on thirty-one additional topics brought to the Board's attention by the Council, besides on several occasions advice was solicited and given by correspondence between meetings. The recommendations of the Federal Advisory Council to the Federal Reserve Board have been published in pamphlet form each year by the Federal Reserve Board. I served as a director in the Federal Reserve Bank of Chicago and as a member of its Executive Committee for two terms of three years each. At the second election I was opposed by a candidate representing a faction among Class B member banks of the district, who thought and, no doubt, correctly so, that they should be represented

by one whose bank belonged to their particular group. My bank belonged to Class A. I won my election, but at the end of my second term the law had been changed by Congress to conform to the idea of the faction referred to, and I was ineligible for re-election.

I was thus for the first six years of the existence of the Federal Reserve System—its formative period—president of the Federal Advisory Council and a member of the board of directors and Executive Committee of the Federal Reserve Bank of Chicago, which positions I thoroughly enjoyed and missed when I had to give them up.

Chapter XIII

Activities Outside of the Banking Business

CHAPTER XIII

ACTIVITIES OUTSIDE OF THE BANKING BUSINESS

BEFORE referring to the activities with which I have been connected outside the banking business, I may mention some positions of trust which came to me through friendships acquired by intimate business relations.

When I joined the First National Bank in 1892 one of the most interested, active and useful directors on its board was Mr. Edward F. Lawrence. He had retired from active business on his own account and had an office in the bank building, where he attended to his personal affairs, which were in such prime condition and order that they did not require much of his time. He, therefore, tendered his services gratuitously to the bank in any way in which they could be used. He

spent considerable of his time in the bank, and a close friendship grew up between him and me. He assisted me in many ways, not only with his advice, which was always sound and conservative, but in making special investigations for me, acting as trustee for securities taken for loans, etc. I kept him busy and highly appreciated his services. A favorite prognostication of his was that the bank would grow to have \$50,000,000 of deposits. He frequently told me that he would probably not live to see it, but that I would, and his prophecies came true, as he died on December 23, 1898, when the deposits had reached \$43,217,293. A few hours before he died, he asked Mrs. Lawrence to telephone me that he wanted to see me. I responded immediately, of course, and found him with just strength enough to bid me good-bye and to hand me a watch which he had got specially made for me by the Elgin Watch Company, in which he was a director. He had got the watch as a Christmas present for me, but feeling that he would not live until Christmas day, he

sent for me to come and get it. He died that night, and I lost a real friend, highly valued, tried and true. By his will he made me executor and trustee of his estate, which, as I have already stated, was in prime condition and very easily handled.

In 1898 when returning from a visit to Scotland, Mrs. Forgan and I crossed the Atlantic as fellow passengers with Mr. and Mrs. John H. Barker of Michigan City, Indiana, and their daughter, Catherine, then a little girl. We had not met before, but Mr. Barker was a director of the Union National Bank, of which my brother was president, and we naturally made each other's acquaintance on the voyage. A year or two later when the Union National Bank consolidated with the First National, Mr. Barker became a director in the First National Bank. On my suggestion Mr. and Mrs. Barker and Catherine spent the following summer in a small rented cottage at Harbor Point, Michigan, where I had acquired a cottage, and where my family had for several years spent their summer vacations. The

Barkers liked Harbor Point so much that Mr. Barker became a member of the Harbor Point Association, and built a very fine cottage for his family on the Association grounds. In this way our acquaintance formed on the steamer grew into a close friendship.

On January 1, 1903, when Mr. Barker bought the minority interest in the Haskell & Barker Car Company from his sister, Mrs. F. C. Austin, he brought her to my office and they both requested that I become trustee for Mrs. Austin and as such take over all the cash and securities (quite a substantial amount) which he was turning over to her for her forty-nine per cent. interest in the car company, which she had inherited from their father. Mr. Barker had inherited the other fifty-one per cent. I accepted this trust and acted under it until 1921, when, with Mrs. Austin's approval, it was turned over to the First Trust & Savings Bank, which had not been organized when I accepted it. She died in 1922.

On November 30, 1910, while I was attending the annual banquet of the St. Andrews Society in the Auditorium Hotel, I was called to the long distance telephone and found Dr. Frank Billings on the line at Michigan City. He informed me that he had been called there in consultation with a local physician on the case of Mr. John H. Barker, who was seriously ill with pneumonia and had very little chance of recovery. He said Mr. Barker wanted me to come to Michigan City at once and bring with me the papers which had been prepared, disposing of his estate. Dr. Billings urged me to get a special train and come that night. This was impossible, however, as the papers Mr. Barker referred to were in the bank vault with a time lock on the door and could not be gotten at until the following morning. I promptly arranged, however, to have the bank's attorney, Mr. Orville Peckham, who had drawn the papers, along with Messrs. E. K. and Louis Boisot, accompany me on the 9.30 train the following morning, taking the papers

with us. The principal paper was a trust agreement disposing of the bulk of his large estate to the First Trust & Savings Bank for the benefit of his daughter and some nephews and nieces. The papers had been in course of preparation for some considerable time and were all ready for his signature. He had in contemplation a trip to California and had told me he would be in to sign them before he left. After the doctors had prepared him for my visit, I took the papers into his bedroom. He asked me if they were all ready for his signature, and I told him all except a blank that was left for the name of the guardian for his daughter. He told me he wanted me to act in that capacity and asked me if I would. I told him I certainly would if he wanted me to. This seemed to please him, my name was written into the blank and he executed the papers. Practically all of his securities were in a box in our safety deposit vault, to which he gave us the key, and on the following day, prior to his death, the First Trust & Savings Bank was in possession

of all his estate, except his home and some other real estate in Michigan City. Mrs. Barker had died a year prior to her husband. Thus I became guardian of their daughter, one of the wealthiest heiresses in the Middle West, if not the wealthiest. My guardianship continued until her marriage to Howard Spaulding, Jr., at Harbor Point, on July 31, 1915. Besides inheriting great wealth from her father, she inherited in large measure his good sense and business ability, which made my guardianship pleasant, agreeable and easy. Relations between us have been uniformly harmonious. She is of a generous disposition and is disposing of her surplus income with discrimination and discernment. She is now arranging to establish a pension fund for several hundred men now in the employ of the Pullman Company, who were formerly in the employ of her father, when, and as, they become incapacitated for work.

By the trust agreement, Mr. W. J. McBride, Mr. E. K. Boisot and I were appointed a board of control of Mr.

Barker's estate, with power under certain conditions to dispose of the Haskell & Barker Car Company, or to carry on the business. Mr. McBride was experienced in the business, having formerly been vice-president of the American Car & Foundry Company. Some time prior to his death Mr. Barker had secured Mr. McBride's services to assist him in the management of the business. No small responsibility was placed on this board of control. A condition in the car building business, very similar to that which I have described in the shipbuilding business of Nova Scotia, had arisen. Steel cars were rapidly displacing wooden cars, and the Haskell & Barker Company's plant was equipped for building wooden cars only. We were faced, therefore, with the necessity of rebuilding the plant for making steel cars, at an expense of several million dollars, or allowing the business gradually to disappear and the plant to become worthless. We were fortunate in having Mr. McBride, who had superintended the building of several steel car plants, and, relying

on him, we decided to make the change, which turned out very satisfactorily. The profits in the business paid for the rebuilding of the plant in two or three years. We saw, however, that we were entirely dependent upon Mr. McBride, whose health was failing, and we made a favorable sale of the business to a new company organized to purchase it, meeting all the conditions imposed in the trust deed. Mr. E. F. Carry, also formerly a vice-president in the American Car & Foundry Company, became president of the new car company, and after managing it successfully for several years it was amalgamated with the Pullman Company, of which Mr. Carry became, and is now, president.

The First National Bank of Chicago was number eight in the list of banks organized under the National Banking Act, and among those who got control of it by purchase of its stock not long after its organization, when Mr. Samuel Nickerson became president of it, was Mr. Nelson Morris, the successful meat packer of Chi-

cago—one of the famous original “big four” packers. He was one of its largest shareholders and one of its directors from that time until his death. As a director he took a keen and active interest in all its affairs, and having a perfect genius for business, his counsel, which was always sound, was sought and highly appreciated by me. He was also a good friend, and I recall with pleasure his interest in my welfare and his many deeds of kindness, especially during my protracted illness just after Mr. Gage’s resignation. As Chairman of the Committee of Directors, annually appointed, on official organization and salaries, he seemed to have me under his special care. He always came to see me personally before the Committee met, and wanted to make sure that I was thoroughly satisfied. He told me I was in my prime and that being at the head of such a large business, I should be placed in a position to acquire a competency for myself and family out of my salary, such as I might acquire if I were doing business for myself. He claimed that if I was not en-

tirely satisfied, my value to the bank would be greatly impaired. Instead of having to boost my pay, I had to hold him down to what I considered both reasonable and satisfactory. I have, therefore, the kindest memories of him as a true friend as well as a good adviser.

When he died he was succeeded on the Board of Directors by his son, Edward, who also took over the management of the large packing business. My intercourse with him was also of a most intimate and friendly nature, and I was the recipient of many kindnesses and favors at his hand, both in a business way and personally. He died when at his prime and left a large estate in charge of his widow, two sons, John A. Spoor, Thomas E. Wilson and myself as executors and trustees. He was succeeded on our Board of Directors by Thomas E. Wilson, then president of Morris & Company, and a few years later when Mr. Wilson retired from Morris & Company, Mr. Morris' son, Nelson, was elected a director in the bank to represent

the interests of the family, then in its third generation.

In Halifax I became a member of the North British Society, one of the oldest, if not the oldest, society in Nova Scotia, and was its secretary for two or three years. In Minneapolis, I joined the Caledonian Society and was president of it during the last year of my residence there. On coming to Chicago I became a life member of the St. Andrews Society, one of the oldest societies in Illinois. In 1916 I was elected president of this society and during that year two radical changes took place in its policy regarding the annual celebration of St. Andrew's day. The society had from its organization in 1846 celebrated this event by a banquet, exclusively for the male sex, and at it Scotch whiskey was served free, and other strong beverages when paid for. At the banquet at which I presided, by a resolution previously adopted by the society, ladies were admitted to the banquet, while whiskey and other strong drinks were excluded. Since then this has been the prac-

tice, and needless to say the tone of the St. Andrew's banquets has been greatly improved. The profits made out of the banquet are devoted to the current expenses of the Scottish Old Peoples Home at Riverside, which is owned by the society and controlled by a board of governors elected by it. I had been elected a member of this board for several years prior to being elected president of the society and I am still a member of it. I have been greatly interested in the home ever since I took an active part in raising the money to build it in 1910. The home then built was destroyed by fire in 1917 and a fireproof structure was erected in its place, when I again took an active part in raising the additional money required over and above the amount of the insurance. The house and grounds are worth more than \$100,000, and in 1919 I started a campaign to raise an endowment fund for it. This fund now amounts to \$112,000, about one-fourth of what it should be. The late John Williamson, vice-president of the Peoples Gas Company, a loyal and whole-

hearted Scot, who was president of the St. Andrews Society for several years, was the original promoter of the home and its mainstay until his death. Its capacity is now fifty-two and it is at present providing a comfortable home for about forty old people of Scottish birth or extraction, who would otherwise be poorly provided for in their declining years. It merits the liberal support of every citizen of Illinois having Scotch blood in his veins.

I have been a trustee of the Presbyterian Hospital since 1901 and have, therefore been able to appreciate its rapid growth in efficiency and beneficence during the decade of Mr. Albert M. Day's devoted services as its president.

Shortly after my marriage in St. Mathew's Presbyterian Church, Halifax, I became a member of that congregation, of which my young wife was already a member. In Minneapolis we joined Westminster, and in Chicago the Fourth Presbyterian Church. I have for some years been president of the corporation

owning the property of the Fourth Church.

Among the clubs I have belonged to I may mention the Commercial Club of Chicago, to which I was elected a member in 1902, when Mr. Lyman J. Gage was transferred to the non-resident list. I was elected president of the club at its annual meeting in 1916 to serve for one year. The other clubs of which I have been a member are: The Bankers, the Chicago, the Chicago Golf, the Union League, the Saddle and Cycle, and the Mid-day.

In 1907 I was elected a member of the board of trustees of the Y. M. C. A. and treasurer of the board, a position which I still retain. In April, 1917, I was captain of a committee which raised \$228,000 for Y. M. C. A. war work purposes. In November of the same year I was chairman of the Ways and Means Committee which raised \$3,076,000 as Chicago's share of a national fund of \$35,000,000 for the same cause. A year later I acted as treasurer of the Chicago committee for the United War Work Campaign, of which my

brother, David R., was chairman. The amount wanted nationally was \$170,000,000. Of this amount Chicago was allotted \$8,000,000, which the committee increased to \$8,500,000 and went "over the top" with it. The fund was for the benefit of the Y. M. C. A. and all the other war work organizations outside of the Red Cross. The keeping a record of and the collecting of the pledges for such a large amount spread over two to three years, required an office force of a large number of clerks. Two retired officers of the First National Bank, at my request, devoted two years of their time to this work. These were Messrs. E. J. Blossom and C. M. Walworth, who gratuitously and patriotically perfected a thoroughly efficient organization, under whom a wonderfully large percentage of the total amount was collected at a minimum of expense. Again in June, 1919, I was a member of a citizens' committee to raise \$300,000 for the local work of the organization and I have helped them in raising their annual budgets since.

The prime mover and leader in Y. M. C. A. work in Chicago from 1888, when he became its general secretary, until his death in 1923 was Mr. L. Wilbur Messer. He was ably assisted by Mr. W. J. Parker, then the business manager and now his successor as general secretary. To the devotion, industry and ability of these two men in their respective spheres of work is very largely due the development and growth of the Association in Chicago. These have quite kept pace with the development and growth of the city and both are equally remarkable. The following statistics taken from the records of the Association will show this to be so:

THE YOUNG MEN'S CHRISTIAN ASSOCIATION OF CHICAGO

Taken from the annual reports of the years 1888, 1907 and 1923

	<i>Statistics</i>		
	1888	1907	1923
Total number paid members Dec. 31st..	5,027	8,130	24,811
Total attendance at gymnasium classes.		95,454	249,285
Total attendance at day and evening schools (student hours)		206,418	778,175
Total attendance at educational talks...		21,067	442,088
Average daily use of dormitories.....		328	3,847
Average number of meals served.....		1,475	5,420
Total attendance at entertainments....		32,222	448,253
Total attendance at religious meetings..		49,242	270,066

Finances

Gross operating budgets.....	\$44,216	\$493,400	\$3,740,394
Income from subscriptions		42,082	230,119
Income from endowment.....		2,001	194,425
Payments by members for privileges....		119,034	560,759
Total assets	400,506	2,100,950	7,804,269
Total liabilities		869,152	2,509,813
Net assets		1,231,797	5,294,456
Total endowment funds.....		55,587	2,003,331

I have been connected with a considerable number of local philanthropies, such as treasurer of the Chicago Federation of Aged and Adult Charities, organized in 1916; member of campaign committee to raise \$1,000,000 fund for United Charities in 1921; governing member of the Art Institute; member advisory committee, Chicago Home for the Friendless; life member Field Museum of Natural Science, member of the British Empire Association, member of the English Speaking Union, director of the Chicago Branch Grenfell Association of America, life member Geographical Society of Chicago, member advisory committee and sustaining member of the Presbyterian Home, president board of trustees School of Domestic Arts and Science, and many others less directly.

Outside of Chicago, I have been a member of the Chamber of Commerce in New York since 1902, a founder of the Sulgrave Institute in 1918 and a member of the advisory council since, a member of the National Council Civic Forum since

its organization in 1907, a member of the National Historical and Biographical Society of New York since 1907, and a member of the Archaeological Institute of America.

The committees on which I served during the war are too numerous to mention. Those were strenuous days for everyone. I was on a committee of bankers who arranged the Anglo-French loan in New York in 1915, with representatives who came over from England and France for that purpose. I was a member of the Chicago committee for Devastated France in November, 1919, and of the French League of America in 1918. For these and other war services I was appointed an officer of the French Legion of Honor and presented with the emblem and diploma by the President of France through the French consul in Chicago.

In 1914 there was organized in Edinburgh, Scotland, the Scottish Women's Hospitals for Foreign Service. I understand it was originated by a body of militant suffragettes, who, on the breaking out

of the war, abandoned their militancy and tendered their services to the government to help in any way they could to alleviate suffering caused by the war. They formed themselves into hospital units, consisting of from eight to ten surgeons and physicians with forty nurses. The work was entirely carried out by women. These units went wherever they were ordered to go and did a wonderful self-sacrificing work in Belgium, Serbia, Russia, Rumania, France and Corsica, where they had sole medical charge of over 3,000 Serbian refugees. During the typhus epidemic in one hospital alone 570 Serbians received treatment. Miss Kathleen Burke, a descendant of Edmund Burke, the great Irish orator and statesman, who had received a dozen of the most coveted military decorations of the Allied Powers, and was the first and only British girl to be made an honorary colonel of an American regiment—138th Field Artillery, A. E. F.—came to the United States to raise money for this organization. Miss Burke was the honorary organizing secretary of the

Scottish Women's Hospitals and their special delegate to America. She had a wonderful gift of oratory and made a most successful campaign, raising in round figures \$350,000 in three months. Her methods were unique. She incurred practically no expense. Her meetings were held in private residences, to which those likely to be interested were invited by the hostess of the occasion. She handled no money herself, but in each city she visited she had a treasurer appointed, to whom all contributions were sent, and he remitted direct to the organization's headquarters, 2 St. Andrews Square, Edinburgh, every dollar received, without the deduction of a postage stamp. Miss Burke came with a letter of introduction to me from the organization's bankers in New York, Messrs. J. P. Morgan & Co., and I acted as her treasurer for Chicago. I also furnished her with quite a number of letters of introduction to bankers in other cities, who acted as her local treasurer. Later I also acted as local treasurer

for a Serbian princess, who came to America to raise money for her suffering people. For these services I was made a Knight of St. Sava by the King of Serbia and presented with the medallic emblem in his behalf by the Serbian ambassador at Washington.

Among my other war work I might mention the following: I was a member of the Red Cross board of governors and captain of a team in its campaign for war work funds, treasurer of the Vienna relief committee, a member of the general committee of the State Council of Defense, chief of the division of finance of the American Protective League, member of the executive committee of the Allied Relief Bazaar, of which Mrs. Forgan acted as chairman of the Canadian booth, member of committee handling the American and Syrian Relief Fund, president of the Illinois Maximum War Savings Club, chairman of the committee which raised \$133,000 for the sufferers by the Halifax, Nova Scotia, explosion catastrophe, treasurer Chicago branch of the Polish Victims'

Relief Fund, member of the general committee in charge of all the Liberty Loan issues by the government, member of executive committee of the Western Relief Fund for the benefit of men in Chicago and adjoining district who enlisted for the war in Canada or Great Britain, member of the Citizens' War Board of Chicago to aid in the prosecution of the war and in administration of war relief.

Outside of my banking connections, I am a director in the following companies: American Radiator Company, Chicago Title & Trust Company, Equitable Life Assurance Society of United States, Fidelity & Deposit Company of Maryland, Guarantee Company of North America, New York Central Railroad Company, also a trustee of the Chicago City & Connecting Railways Collateral Trust, member of the Western Board of Control of the Audit Company of New York.

Chapter XIV
Moral Reflections

CHAPTER XIV

MORAL REFLECTIONS

FROM the foregoing story of my life I believe it will be conceded that so far as my business career is concerned, I met with success in my chosen calling of banking. I have frequently been accredited with success and asked to what I attribute it. My answer has been that in so far as it was attributable to me at all, it could only be to my willingness to work hard at the job assigned to me and my readiness to seize opportunities as they came to me. Two facts in my business career afford me especial satisfaction and considerable pride. One is that only once had I to apply for a job and that I obtained through a competitive examination. The other is that never did I ask for an increase in salary. I have never occupied a position with which I was dissatisfied, nor

was I looking specially for a change, or even for further promotion when the offer of a better position or promotion came to me. I simply did my level best to perform the duties assigned to me, in the position I occupied, and I found my advancement and pay were always well taken care of by those who had the dispensing of them.

In the changes I made the increased pay was, of course, one of the considerations which induced me to make them, but after my salary was fixed in any of the banks I worked for, all increases of pay came to me unsolicited.

My business success was, of course, co-ordinate with that of the banks I worked for, and their success was attributable to the marvelous opportunities they had for growth and development. The Bank of British North America was, a few years ago, merged with the Bank of Montreal, but the growth of the other three banks with which I have been connected as measured by the increase in their resources, from the year in which I joined

each of them to the present time, tells the almost incredible story.

The resources of the Bank of Nova Scotia, December 31, 1876, were...	\$3,506,813
On December 31, 1923, they were...	227,889,799
Showing an increase of 6,400 per cent.	\$224,382,986

The resources of the Northwestern National Bank, Minneapolis, December 31, 1887, were.....	\$4,326,571
On December 31, 1923, including the resources of its affiliated trust company, they were	93,294,274
Showing an increase of 2,054 per cent.	\$88,967,703

The resources of the First National Bank, Chicago, December 2, 1891, were	\$32,320,716
On December 31, 1923, the resources of the allied banks, the First National Bank and First Trust & Savings Bank, were	388,341,927
Showing an increase of 1,100 per cent.	\$356,021,211

The fact is that the extraordinary business development of the United States and Canada during the past generation

has afforded opportunities for bankers and banking in both countries unparalleled in any previous generation in any country in the world's history. All that we bankers had to do, therefore, was to keep the middle of the road, manage the affairs of our banks honestly and with ordinary care, and success for ourselves and our institutions was inevitable.

The contrast between the business opportunities afforded in St. Andrews, Scotland, where I commenced my business career, and those existing in Chicago, where I hope to end it, is very striking. A statement of business growth in St. Andrews, as it appeared to be when I visited the grand old "Gray City by the Sea" two years ago, when compared with the growth of Chicago as I have described it, will emphasize the contrast in the opportunities afforded for young men in the two places.

During the fifty years between the date of my emigration from St. Andrews in 1872, and the occasion of my last visit to it in the summer of 1922, the only no-

ticeable business growth was in the manufacture of golf clubs. This was due to the development of the game in St. Andrews and its spread all over the world. There are now in St. Andrews four golf courses in place of the one, and six or eight golf club making establishments in place of the three that existed when I was a boy. My family has held the lead in the growth of this line of business, and, as already stated, now owns a corporation of considerable dimensions engaged in it, sending out clubs and balls to all parts of the world. Outside of this development I found all other lines of business very much as I left them fifty years previous. The principal business of the city, however, if it can be classed as business, is education, and this received a new impetus from a large gift made by Mr. Andrew Carnegie some years ago to the St. Andrews University, which put the oldest university in Scotland once more on its feet financially and enabled the city to resume something of its former prestige as an educational center. St. Andrews is

also a popular summer resort and its business is greatly augmented by the influx of summer visitors, which has also greatly increased since the days of my boyhood. As measured by the development of the banking business, however, the only perceptible increase was the addition of one branch bank; there were four such banks in my youth, now there are five. The four that were in business, when I served my apprenticeship in one of them still occupy the same offices they did then, and I could discern no perceptible change in their equipment or in the number of their employees. In the office in which I served my apprenticeship, there were the same counter, the same desks, the same stools, and the office seemed to be managed by an experienced accountant and two apprentices, just as it was in my day, except that we did not always have two apprentices. In the law office I was shown on the inside lid of a high desk a list of clerks who had served in the office during the previous hundred years. Each clerk as he came into the office had written his name with



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the date of his entering the service, and there in the middle of the list was my signature almost exactly as I write it still.

The meanderings of these memoirs having drifted back to St. Andrews where they and I started; it seems opportune to close them where they began.

Appendix

*Some of Mr. Forgan's Public
Addresses*

A GOOD NOTE

[Presented originally before the Bank Clerks Mutual Improvement Club of the Bank of Nova Scotia, Halifax, by James B. Forgan in 1880. Revised and delivered by Mr. Forgan before the Bank Clerks Association of Minneapolis in 1901 and in 1903 before the Providence Bank Clerks Mutual Benefit Association.]

We will take the ordinary note form and, with it as a text, discuss how we can decide as to the desirability of notes offered us for discount.

Our text then is: "(So many) months after date, for value received, I promise to pay (blank, the payee) or order the sum of (so many) dollars at the office of (blank) bank."

In the good old-fashioned Scotch style of preaching, our subject naturally divides itself into as many heads as there are clauses in the text, and we will consider them in regular order. But first, taking the instrument as a whole, its genuineness and legality must be considered. The bank's title to it will depend on this. It should be free from alteration and must conform to the laws of the state in which it is executed and made payable. A banker must have a practical knowledge of the "law mer-

chant" as well as of the laws governing negotiable paper in the different states. Unfortunately these laws are so different in the different states that it is almost impossible to keep track of them, which suggests and emphasizes the urgent need of uniform commercial legislation throughout the states.

Having satisfied ourselves as to the genuineness and legality of the note, we may turn our attention, as already suggested, to its various clauses, each one of which furnishes its own subject for thoughtful consideration.

First, "So many months after date"—the time it has to run to maturity. It must here be considered whether this time is not beyond the limit within which a bank's money can safely be invested; remembering that most of its money consists of deposits payable on demand. In addition to the ordinary contingencies and uncertainties of business it must be borne in mind that while the bank's ability to meet its ordinary obligations depends primarily on its cash reserves, extraordinary demands are liable at any time to arise, and for these the prompt payment, as they mature, of its bills receivable must be relied on. A bank cannot safely receive deposits payable on demand and lend them for an indefinite or even for a long period of time. Its bills receivable must afford reasonable assurance that at least sufficient of them

will be paid as they fall due to meet all possible contingencies that may arise, such as the withdrawal of deposits or a heavy borrowing demand. Experience and custom have established a generally recognized rule in this connection. Three months has thus been established as the regular term for payment of a bankable note, with sufficient elasticity in the rule to meet special cases. It is self-evident that the longer a note has to run, the greater the risk assumed in discounting it. We are short-sighted mortals, neither prophets nor the sons of prophets. We cannot tell what a day may bring forth; how then shall we anticipate what may happen in months. It is, therefore, a desirable feature in a note offered for discount that it has not too long to run to maturity.

The next clause, "For value received," suggests for consideration whether it is a "bona fide" obligation based on a legitimate transaction or an accommodation note. If the endorser offers the note for discount the assumption is that he has taken it from the promisor for value received in trade, in which case it belongs to that very desirable class of discountable paper—a merchant's "bills receivable". The desirability of a note from this point of view will depend on its being given for actual value received by the maker from the payee.

If no value has passed from the payee or

endorser to the maker, then it is an accommodation note for the benefit of one or the other of the parties, or both. Or the parties may have exchanged notes, in which case it belongs to that worst class of paper made, known as a "kite," and is a fraud on the face of it. A banker who discounts such paper knowingly deludes himself; if unknowingly he is deceived and he will in most cases be defrauded. Only irresponsible parties, floundering on the rocks of bankruptcy, will resort to such financing. To discover a customer resorting to such methods should be a warning to a banker to have nothing further to do with him.

If the maker of the note is the bank's customer and he is borrowing direct on his own obligation the value received will be proceeds passed to his credit or otherwise paid him.

The next clause, "I promise to pay," again suggests two legitimate classes of paper, already referred to, for consideration, but from a different point of view. We will consider them separately. First, bills receivable offered by the endorser. The strength of the promise is not in this case of prime importance, and need not, therefore, be as closely considered. In most cases the standing of the promisor will have been investigated by the bank's customer when the transaction was originally gone into and his endorsement should be a sufficient guar-

anty for it. If there is a doubt as to this, the banker will, of course, postpone discounting the paper until he can satisfy himself as to the responsibility of the promisor for the amount involved. A banker soon becomes familiar with the quality of the bills receivable offered by his customers and can pass upon them at sight. Numerous channels of information come to him in the ordinary course of business if he keeps his eyes and ears open. He sees the obligations of the same parties in many different directions and knows how they are taken care of. In this way he can often advise his customers as to the responsibility and promptness of the makers of such paper as we are now considering, and he should not hesitate to do so when he can.

The other kind of promise to be now considered is that of the customer direct to the bank for money borrowed. Desirability here depends upon who the promisor is and what his promise is worth. This naturally raises the question: "What can a banker know about his customer?" He should certainly be able to form an opinion of his character as it relates to his integrity, morality, temperament and tendencies, also as to his financial responsibility.

One of the first things he should require is a statement of his customer's assets and liabilities as a basis for arriving at his financial responsibility. And the first thing to do with the state-

ment is to eliminate from the assets all encumbered property whether real or personal. The bank's money should be regarded as equally good with that of the creditor who holds the mortgage security, and should never be allowed to take second place. The banker who bases credit on equities does a second-rate and, therefore, undesirable business. He will sooner or later come to grief. The provision in the National Banking Act prohibiting loans on real estate was wisely considered. Such loans, being based on something for which there does not always exist a ready market, are not of a sufficiently temporary nature for commercial banking, and the law makes foreclosure a very slow process of liquidation. For these reasons it is well to eliminate real estate from statements submitted as a basis for credit. The statement should be reduced to the actual amount of the customer's current debts on the one side and of his cash and convertible assets on the other. And by convertible assets I mean those which he not only can, but, in the ordinary course of business, will turn into money with which to pay his debts. No one should be granted credit by a bank without security who cannot, in addition to his real estate, plant and other fixed property show readily convertible assets in the shape of merchandise and accounts and bills receivable of sufficient value to afford a reasonable and

proportionate margin in excess of his liabilities. Mortgage debts may, if they are not excessive, be offset against the fixed property on which they form a lien. Such statements should be periodically obtained from the customers and carefully filed, along with such other information as can be obtained in regard to them. This is now regarded as an important part of bank management, the necessity for which becomes more apparent as the business expands. The information on which a bank grants credit is obtained by the banker in his official capacity and is, therefore, the bank's property. The bank may survive him. It will if his management is good. He will one day be promoted to a higher sphere of usefulness, either in this world or the next, and there should be left behind him in the bank as good a record of the information on which his transactions with customers have been based as he leaves of the transactions themselves.

A bureau of credit is a desirable department in every well managed bank, however small. The practice of receiving statements from customers has become almost universal, and with such as give them a banker's burden is greatly lightened. His difficulties arise with the reticent, shifty customer who endeavors to hide rather than to disclose the true condition of his affairs, the gentleman whose most conspicuous

assets are cheek and bluff, who claims credit on his fine appearance and high standing in the community, concerning both of which no one can be found to entertain quite such an exalted opinion as himself. The day has gone by for wasting time on such would-be customers. The man who applies for credit and who refuses to disclose to his banker the condition of his affairs, while he refers to mercantile agency ratings or to his supposed business standing in the community, is not entitled to much consideration. It is simply absurd for anyone to expect credit unless he affords his banker sufficient information about his affairs to enable him to do his business on an intelligent basis, and no banker is ever warranted in doing business on any other basis.

But, after all, character must be the foundation of credit. Without it statements and all else are unreliable. If a banker trusts a rascal he is entirely at his mercy for the payment of what he borrows. The odds are all in favor of the swindler when once he gains a banker's confidence. The dishonest customer thinks out and hatches his nefarious schemes at his leisure, while the banker decides transactions with him offhand as they are placed before him. The granting of credit successfully is a question of confidence properly placed by the banker in the man he is dealing with. That

banking, as a rule, is successful and profitable is evidence not so much of the shrewdness of the bankers but of the integrity and honesty of their customers. The vast majority of business men are honest and upright. All the more reason for discrimination against the dishonest and disreputable.

The relations between a banker and his customers should be close, candid and mutually considerate and helpful. The live, up-to-date business man takes his banker into his confidence and thus establishes for himself a credit on which he can depend. Only distrust is produced by the reticent, non-communicative individual who beats about the bush and attempts to bulldoze his banker into doing business with him in the dark.

Under this head, therefore, the quality of goodness in a note will depend primarily on the correctness of the banker's judgment of the character of the customer, and secondly, on what he knows about him and his affairs. I have indicated what he should know and how he should find it out, and the advisability of not discounting the note unless he does know. A careful study of a customer's account, of his dealing with the bank, of himself, his associations and his statements, will enable any man of ordinary intelligence to do business with him safely or to stop doing business with him en-

tirely, as the case may be. And the banker should not hesitate to face the alternative.

The next clause gives the name of the payee, which, if it is a note direct to the bank, will be the name of the bank itself, or of its cashier as its executive officer. If it is a bill receivable the customer will be the payee, and we have already fully considered his case. If it is an accommodation note, the accommodation endorser will probably be the payee, and I have a few words to say about him. He is not so numerous as he once was. In the evolution of banking he has been rather discredited. I can remember when accommodation endorsements were taken by bankers as a favorite form of security. Now they are largely confined, as they should be, to endorsements for the benefit of corporations by the parties principally interested in them as stockholders, or to family relationship, such as a father for the benefit of his son, or a wife for the benefit of her husband, in cases where she owns the property and the state laws permit her to do so. The practice of business men endorsing for each other is happily a thing of the past. It may be stated as a rule that accommodation endorsements are undesirable and should be discouraged because they tend to complicate business. If exception is made to the rule it should be in such cases as I have already indicated as legiti-

mate, or where the endorser is so amply responsible as to be undoubtedly good and not likely ever to require such accommodation for himself. I remember a story of a banker in Canada who did business almost entirely on the strength of accommodation endorsements, and of whom it was said he never positively refused any note that was ever offered him for discount, except once. The way he got around giving a direct refusal was by always telling the customer offering the note that he must get another endorser. On one occasion a very needy customer made a note, secured an endorser and tendered it for discount. The banker looked at it and handed it back with his usual answer: "My friend, you must get another endorser." He went away and soon returned, having secured another endorser. The banker looked it over as if he had never seen it before and returned it with the same friendly answer. This was repeated ten or twelve times, when finally it was tendered with a name on it which caused the banker for once to change his usual courteous method of refusal, and his answer, equally mild in manner, was: "My friend, you have gone far enough with this one; you had better start another, for that last name would spoil anything."

The next words, "or order," afford the note the quality of negotiability, making it transfer-

able by endorsement and delivery from one holder or owner to another, the endorsers continuing to be responsible for the amount until it is paid by the maker unless they write "without recourse" above their signatures.

The next clause, "so many dollars," raises the question as to the amount involved, in connection with which the aggregate amount of the borrower's indebtedness to the bank must be taken into account, which brings us now to the consideration of the lines or limits of a customer's credit. Fixed lines of credit, which seldom, if ever, vary in amount, are undesirable and in most cases end in loss. It is not the function of a bank to supply its customers with capital nor to go into partnership with them, which supplying them with a fixed amount of money indefinitely practically amounts to. A bank's legitimate sphere is to facilitate the efficiency of capital by making deferred liquidations available for immediate use. A customer must have sufficient capital permanently invested in his business to entitle him to such use of a bank's facilities. The practice, therefore, of granting a customer a fixed and steady line of credit is a pernicious one.

It is, of course, desirable and necessary for a customer to have an understanding as to the limit of his credit with his bank. But lines of credit, it should be clearly understood, are for

temporary purposes only. The option of renewing a note at maturity must invariably be held by the bank, never by the customer, and there should be some season of the year when each customer practically liquidates his bank indebtedness.

During the financial troubles of 1893 and 1894, still fresh in our memories, examples of the trouble caused by such arrangements were plentiful and so long as the practice is continued similar trouble will arise on the recurrence of every monetary stringency. Many banks during the period referred to were loaded with such paper which they could not collect and had to rediscount to raise the money they required to liquidate their rapidly shrinking deposits. In some cases which came under my personal notice they were forced to suspend after having rediscounted all they could of it. Well-rated concerns which resented any imputation on their credit, ignoring the fact that their inability to meet their obligations at maturity was as serious a reflection on their credit as could be made, would explain that the notes were part of their regular bank line for which they had made no provision; that they had their regular merchandise obligations to meet and that, therefore, these notes would either have to be renewed or carried over until their banking arrangements were readjusted, or, as I

would put it, until they could find another bank willing for simple interest at current rates to take a partnership in their business. Such paper is a poor asset on which to rely for the liquidation of rapidly diminishing deposits and shows the folly of such arrangements.

A line of credit should be the maximum amount of a customer's paper which, under ordinary conditions and during the satisfactoriness of his account, a bank will take from him without agreeing to grant renewals. This will not prevent the banker from taking existing conditions into account and doing all he can for his customer, but it will relieve him from a contract which it may be impossible for him to fulfill, and no conservative banker will enter into such a contract. A customer should never be led to look upon his bank line of credit as something on which he can depend at all times and under all circumstances. He should be required to make the same provision for meeting at maturity his notes to the bank that he does for his other obligations. In this way his debt to the bank will be a fluctuating one and his credit for temporary purposes only.

The amount of a customer's line of credit should be based on the liquidation value of his readily convertible assets and should be in proper relation to the amount of the average balance of his bank account. The system of

bargaining with customers to grant them a stated line of credit for a stipulated bank balance, especially to open a new account or to solicit one on such a basis, is, however, to be deprecated. Such arrangements are very misleading and divert the thought of the banker from the real issues involved in granting credit. Just as a bank's cash reserves should be in proper proportion to its total indebtedness and to the average amount of its daily business, so a borrowing customer's bank balance should be in proper proportion to his liabilities and to the volume of his daily transactions and for the same reason. He cannot tell what sudden demands may come upon him, what changes may take place in the business or financial situation, or what losses or reverses may overtake him. His bank balance in excess of his daily turnover is his cash reserve for emergencies. It is, therefore, one of the things to be taken into account by his banker in fixing the amount of his bank credit.

The quality of a note, therefore, in connection with the amount of it, depends upon its being within the limit of the borrower's credit properly fixed by the bank on such considerations as I have mentioned.

The last clause indicates where the note is payable, and as a matter of course it will be most desirable to have it payable at the bank's

own office. It should at all events be made payable where proper facilities exist for its presentation and collection at maturity.

All these desirable features in a note combine to give the banker what he is looking for, viz., reasonable assurance that it will be paid when due. A bank's strength depends upon the liquid nature of its assets. This can only exist where the notes discounted are bona fide contracts, meaning just what they state; that on the respective fixed dates of their maturity they will be promptly paid. Its weakness is disclosed when an inadequate proportion of its notes can be relied upon to be paid when due. It is a good test of a bank's strength from time to time to go through the tickler and estimate what percentage of the notes maturing can be relied on to be paid at maturity. In easy times it may not make much impression, but in stringent times the bank's existence will be found to depend upon it, and "in times of peace we should prepare for war".

To sum up, then, the desirability of a note offered for discount, from the consideration of these clauses of the contract, would appear to consist of its being genuine, in legal form, payable within a reasonably short time, given for actual value received, made or endorsed by a reliable and responsible customer, for an amount within his legitimate requirements and

resources and payable at a place where proper facilities exist for its presentation and collection when due—all these considerations combining to afford reasonable assurance that it is a promise that will be lived up to and redeemed by its prompt payment at maturity.

A plain note, such as we have been considering, may be strengthened by a pledge of collateral security for it. This calls for some consideration outside of the simple contract and the parties to it. When taking security a banker should first see to it that he gets it in legal form so that he will absolutely control it should he have to realize on it. He should also satisfy himself that the security he takes is actual and not nominal. I don't know anything in which a banker more easily or more often deludes himself than in the taking of collateral security. For myself, I would rather have an unsecured note than one that purports to be secured where the pledge or the instruments representing the property pledged do not legally afford an absolute first lien on the property or where the value of the property is nominal or contingent. One is apt to go to sleep on a loan that is presumed to be secured, whereas if he depends entirely on the promise of the maker he will go after him and collect his debt if the promise is not promptly met. If the security is not valid or is of little or no value

he wakens up to find that after long waiting both the promise and the security have become worthless. One of the most extraordinary delusions in regard to taking collateral security is to pledge the stock of a corporation as security for its own note. It would seem incredible that such a proposal should be made and more incredible that any banker should accept it, but in my own experience I have known the former frequently and the latter sometimes to occur. The object in taking security should always be clearly in the banker's mind. It is, of course, to have something to fall back on if the note secured by it does not in itself prove good. If a corporation's note cannot be collected out of its assets in liquidation under execution or otherwise, there will be nothing left for the stock, hence if the note does not prove good in itself the stock will be of no avail, and it will be absolutely worthless just at the time when security is wanted.

All this I say simply as a word of caution in regard to the taking of security. Of course, there can be no better notes than such as are secured by a legal pledge of the right kind of merchandise or securities of known marketable value in excess of the amount of the loan. In the case of ordinary merchandise the margin should always be ample, as a bank can never

realize on it except at a considerable concession from the supposed market value.

Thus far I have directed attention to notes offered for discount by customers. There is, however, a large and increasing business transacted through commercial paper brokers. This class of paper is of sufficient importance to call for some consideration. The desirability of brokers' paper depends on exactly the same considerations that I have drawn attention to in connection with customers' paper. If a banker has surplus funds to invest and can get through a broker paper that will stand the test as to its desirability of all the considerations as I have just summed them up, he need not hesitate to buy it. He should be even more particular to see that paper purchased on the open market is in every way desirable than he is in connection with paper taken from customers. As a rule he will find definite and reliable information more difficult to get. He may even have to surrender his prerogative of final judgment to others; but in this he must be exceptionally careful. Buying paper through brokers is not without its advantages. Paper can be so bought with cool deliberation and free from the personal influence which the needy customer studies how best to exercise. Bankers are human and susceptible to the better human influences and impulses. Sometimes

their hearts yield against the judgment of their heads. With a broker the transaction is reduced to a strictly business basis. A decision can be arrived at through the exercise of the cool judgment of the mind. The human susceptibility of the banker to be influenced by relationship, friendship, good-fellowship, neighborliness, return for favors received, sympathy for the distressed, flattery, personal interest and other extraneous considerations is eliminated. It counts for a great deal in arriving at a decision to be relieved of these influences. But besides these he is relieved also of the consideration of the legitimate expectations of his customer to be accommodated from the fact that he is a customer, that he keeps a deposit account more or less desirable and has a connection more or less profitable to the bank. And when the paper matures he is under no obligation whatever to consider a renewal of it, however urgent the borrower's necessities may be. Purchased paper, judiciously bought, should be such as can invariably be relied on for payment at maturity. There should never be any question as to the temporary nature of the investment. The broker is, I consider, a legitimate and helpful auxiliary to the banker within proper limits, and if these limits are exceeded the banker will be to blame. The legitimate limits of the broker's business will not be ex-

ceeded so long as the banker confines his purchases to bona fide contracts that will be faithfully lived up to and promptly performed. A banker should never overlook the fact that it is the broker's business to sell, the banker's to buy, and what is required of him is judicious and intelligent buying. If, like Deacon Perkins when he bought the horse from David Harum, he discovers he has made a poor purchase he must blame himself. The transaction only shows that the broker was a better salesman than he was a purchaser. A banker should never buy paper solely on the representation of a broker, whose business it is to sell it, with his brokerage dependent on his success. He should buy nothing beyond his own legitimate field of investigation, which he can make as wide as he desires, but which should never extend beyond the limits of his knowledge of those on whose information and advice he feels that he can rely.

CLEARING HOUSE BANK EXAMINATIONS

[An Address by James B. Forgan before the Bankers Club at Detroit, December 7, 1912.]

Chicago was the pioneer in clearing house bank examinations.

They were inaugurated there in 1906 after the failure of a national bank and two state banks. These institutions were under the direct management of one man who was president of the three. The condition of their affairs when disclosed surprised and appalled the other Chicago bankers. The liabilities of the private ventures of the president had gradually accumulated in the three banks until they had absorbed the entire capital and surplus of all three, amounting to \$3,500,000, and 44 per cent. of their aggregate deposits of \$27,000,000, one-third of which was public funds.

The condition in the national bank had developed through a period of years during which the Comptroller of the Currency, through the semi-annual reports of his examiners, had been kept fully advised of what was going on. Among the assets were found nineteen fictitious

loans for \$90,000 each represented by so-called memorandum notes. Each memorandum note purported to be secured by \$100,000 of second mortgage bonds of the Wisconsin & Michigan Railway Co. This road was controlled by the bank president, and the bonds proved worthless. The first mortgage bonds of the same road, \$952,000 of which (being almost the entire issue) were also among the assets of the banks, were finally disposed of at about twenty-three cents on the dollar. These memorandum notes did not, on the face of them, even pretend to be the obligations of bona fide borrowers. The ostensible signatures on them, although in different names, were all in the handwriting of the clerk who filled them out and who wrote plainly in red ink across the face of each the words "Memorandum Note". They could not deceive anyone who saw them and they did not deceive the national bank examiners who reported to the comptroller the facts in connection with them.

Another of the irregularities discovered was that so-called certificates signed by the treasurer of one of the president's railroads, purporting to call for \$2,000,000 of its bonds when issued, had been treated and reported as bonds on hand. All the bonds permissible under the conditions of the mortgage securing them had previously been issued and sold and there

could be no further issue of them until a contemplated extension of the road was completed. Some grading for this extension had been done, but the work was abandoned and the bonds called for by the so-called certificates were never issued.

Up to the time of their failure all three banks paid substantial dividends to their shareholders, the national bank 12 per cent. regular and 3 per cent. extra, and the state banks 10 per cent. and 8 per cent. respectively, besides which they showed substantial growth in their surpluses. The market quotation for their stocks was \$380, \$350 and \$240 per share and there were sales at these prices.

Although cognizant of these irregularities and of the accumulating obligations in the bank of the president's private enterprises the comptroller apparently could not or at all events did not take measures to stop them by other means than those of expostulation and reproof until matters became so bad that they simply could not be permitted to go further.

When at last drastic measures were decided upon the comptroller and the state auditor, acting together on a Saturday afternoon after the vaults of the three banks had been closed with time locks set for Monday morning, notified our clearing house committee that unless provision were made for payment in full of the

deposits none of the banks would be permitted to open for business on Monday morning and they would be put in the hands of receivers.

Business conditions were strained and the time was, therefore, particularly unfavorable for permitting the failure of three prominent banks. The effects of such a calamity it was feared would have extended far beyond the confines of Chicago.

With but a superficial statement from the president of the condition of his various ventures, some of which were in course of construction, and with only a vague knowledge of the realizable value of their obligations, the clearing house committee hurriedly made a tentative estimate of the realizable value of the assets of the three banks and of the deficiency in them to meet their deposit liabilities. These estimates have since proved remarkably near the final outcome. To prevent a panic the remaining Chicago banks, facing an inevitable heavy loss, assumed the deposit liabilities of the three banks and took over their assets under a limited guaranty of the directors. This action besides providing for payment of the depositors in full, relieved the bondsmen of their responsibility for the \$8,200,000 of public funds in the bank and the shareholders of their double liability on their stock. These three classes of vitally interested individuals will

probably never fully appreciate what the action of the associated banks meant for them. Subsequent developments have shown that in liquidation the assets of the three banks plus the double liability of their shareholders, had it been collected, would have been insufficient to pay their deposit liabilities.

The situation was thus protected from a general disturbance of public confidence, but it was done at the cost of a very heavy loss, foreseen at the time and since realized by the participating banks.

The statements of the national bank made five times a year to the comptroller's department, copies of which were rendered to the clearing house committee and on which it had implicitly relied, failed to disclose these conditions.

I have given you these details of this unfortunate affair because they show so clearly the limitations of governmental supervision of banks under our national banking law as it has been interpreted by the courts and by the legal advisers of the comptroller's department.

Let me draw your attention to a few of the legal restrictions which limit the comptroller's power to act in such cases.

1. Under the National Bank Act no obligation due a bank is considered bad until inter-

est is past due six months and not then if it is secured or in process of collection.

2. The comptroller may appoint a receiver when he concludes that a bank is insolvent. But here again he has been hampered by the legal definition of insolvency, which is "inability to pay current debts as they mature".

3. The making of a national bank report to the comptroller so long as it is in accordance with the bank's books, however erroneous it may be as to actual values, which alone disclose a bank's true condition, cannot be construed as a misdemeanor.

These legal restrictions are presumably the reason why some banks have been permitted to persistently publish to the public the figures of their statements as rendered to the Comptroller of the Currency after they are known to have met with heavy losses and have failed to provide for them by charging them to profit and loss. That this has been permitted in some cases is notorious. The case of the Chicago National Bank and a recent one in a large central city are conspicuous examples because of their size. Undoubtedly as a rule the published statements of the banks are reliable, but there are a few exceptions, with which, in view of the legal restrictions which govern his action, the comptroller finds himself unable to cope. These exceptions, however, frequently result in failures

and catastrophes. The comptroller cannot legally take drastic measures with such banks until they perform some act of insolvency or when he believes their capitals to be impaired, which being a matter of judgment in regard to the realizable value of their assets, is frequently difficult to prove.

Clearing houses, as a rule, are voluntary associations established primarily for the convenience of their members in effecting their daily exchanges. In this process, however, the members have to trust each other for large amounts in the shape of daily balances payable in cash. Each bank member, therefore, becomes interested in the integrity of all and all in each. But beyond this, in view of the awful calamities caused by bank failures and of the fact that the failure of one clearing house bank affects the confidence of the community in all, they become vitally interested in the maintenance among themselves of conservative management and proper business methods. Hence, only such banks as can stand a satisfactory preliminary examination are admitted to membership and only those whose condition continues to be satisfactory to a duly appointed committee can enjoy clearing house privileges. Members and non-member banks clearing through members are required to render to this committee copies of the statements they make to the

comptroller or to the state auditor five times a year.

These disclosures in connection with the failures of these three banks showed the associated banks of Chicago that statements so rendered, which up to that time had been all the clearing house committee had to rely upon and which, as published, form the basis of the standing and credit of banks with the public, could not be implicitly relied upon. It was, therefore, unanimously resolved to adopt a system of supervision, under which there would be some assurance that such conditions could never again develop in any bank connected with the Chicago Clearing House Association. There was, therefore, organized a bureau of examination in connection with the clearing house.

The strength of this bureau lies in the fact that it was thus evolved by the voluntary action of the associated banks for their individual benefit and protection. We were fully aware that external supervision under whatever authority it may be exercised does not absolutely guarantee sound and safe banking in individual cases. Honorable and intelligent initiative management can alone be relied on for the ultimate success of individual banks. But judicious and intelligent supervision in the mutual interest of all fosters and encourages

conservative management in each. We further saw that it would not do to have the entire business of the individual banks disclosed to a committee made up of competitors in the business. We, therefore, devised the plan of appointing a competent examiner with a sufficient force of assistants to make as thorough an examination as possible of each bank at least once a year and report his findings in full detail to its directors. In this way as thorough an examination is made of each bank as would be made if the directors of their own initiative employed an outside expert to examine their bank and report to them. The examiner's complete report of each bank is sent to its president, the directors are all notified of its existence and are asked to personally peruse it and to acknowledge to the examiner the receipt of his notice. If, in the course of his examination, the examiner finds any bad debts, depreciated assets or other losses unprovided for, so that at a fair valuation the assets do not offset the liabilities, including the capital, surplus and undivided profits, as shown in the balance sheet, or if he discovers any irregularities in connection with the bookkeeping or management he reports such findings to the clearing house committee. The committee does not see the examiner's complete report as rendered to the directors. All that is found satisfactory is so

reported to the committee without detail. If conditions are so bad as to make it necessary the committee has the right to call for a copy of the complete report so that it may deal intelligently with the case, but this is only when bad business so permeates the bank as to render its condition precarious. Thus, as nothing but bad and undesirable business comes to the committee's attention, the members of it have no advantage through their position in competition with the other banks for desirable business.

Neither the examiner nor the committee is hampered with restrictive rules and regulations. The examiner simply examines and reports upon the condition of each bank as he finds it the same as any other expert examiner would do if employed by the directors for the purpose. Anything affecting the integrity of a bank's statement as rendered under oath to the Government and to the clearing house and as published is reported to the clearing house committee. This is the whole matter in a nutshell. We have simply established two rules applicable to all banks connected with our Clearing House Association and even these are unwritten. The first is that our statements as made and published must reveal the true conditions of our banks on the basis of their assets at a fair valuation being sufficient to offset their liabilities including capital, surplus and undivided profits.

In other words, their capital, surplus and undivided profits must always be represented by the approximate value, reasonably estimated, of their assets in excess of the amount of their liabilities to the public. The second is that from an ethical standpoint the management of our banks must be honorable and straight, and their records and reports reliable. The clearing house committee, duly elected once a year, are, with the examiner's reports to guide them, the judges as to whether the statements rendered to them by the banks five times a year are reasonably correct from the standpoint of these two unwritten rules. As already stated, we are not hampered with technical rules or regulations or even with legal definitions or interpretations. We investigate and treat all on a reasonable business basis. Our committee might find difficulty in defining a bad debt, while they could recognize one if they saw it. They might regard as a bad debt an obligation on which interest had been paid six months in advance instead of having to wait until it is six months past due before they can so consider it. They regard the making and publishing of erroneous statements of a bank's condition as morally wrong, and, therefore, not permissible among banks associated together for their mutual benefit and protection, even if the making of such is not legally regarded as a mis-

demeanor. And they do not have to wait until a bank is actually insolvent in a legal sense before they can call it to time. A bank's statement must, on the basis of the examiner's report, be found reasonably accurate by the committee or it cannot continue to enjoy clearing house privileges.

As to the ability of an examiner to pick out and report on bad debts and depreciated assets he soon acquires a sufficient knowledge of local conditions to enable him to do so with reasonable accuracy. He subscribes to the commercial agencies and has the entire banking fraternity with which to consult as to the standing of any obligor or as to the value of any security. The longer he is on the job the more information he acquires and the more proficient he becomes. Besides having been for several years a bank inspector myself I have had considerable experience with bank auditors and examiners and my observation is that anyone of ordinary intelligence with a bank training and with adequate sources of information at his command can very soon classify a bank's assets with reasonable accuracy.

It has been my practice to divide bank assets into five classes and for convenience to name them in dairy terms, such as cream, sweet milk, skim milk, sour milk and sediment. The cream consists of such prime investments,

whether in notes or bonds, as can be relied on to be paid at maturity or as can be readily sold and converted into cash. The sweet milk is that line of desirable loans made to good customers who keep satisfactory average balances and whose legitimate business requirements the banker is under obligation to consider and must consider in order to keep their business. The skim milk is represented by business which is not quite as good as it was thought to be when it was taken on and, therefore, requires special care and attention, although no loss on it is anticipated. The sour milk is business which has become so bad that at least partial loss can be reasonably anticipated on it which should be provided for. And the sediment is business so bad that a large percentage of loss on it is so inevitable that it can no longer be considered a legitimate or desirable bank asset and should be charged off.

The cream and the sweet milk are readily recognizable, the skim milk will, as a rule, disclose some complications or other indications of conditions connected with it which make it undesirable as a bank asset at its face value. With these three classes segregated there are left the sour milk and the sediment. To keep a bank as sweet and clean as a model dairy these two last-named classes of assets must be constantly eliminated. When discovered by the ex-

aminer they are reported to the clearing house committee because if a bank's statement is to disclose its true condition the loss on them should be provided for. There is little fear of the members of the committee competing for such business.

As to the practical working of clearing house examinations in Chicago during the six years of their existence I can only say that it has proved in every way most satisfactory and successful. There has been neither friction nor unpleasantness. Bank directors realize the great benefits derived and are unstinted in their praise of them. They are greatly assisted by these reports in keeping themselves informed on the condition of their banks and they readily co-operate with the clearing house committee in the correction or elimination of anything open to criticism. Our experience has been that the banks have almost unanimously adopted every suggestion made by the committee. I cannot, of course, discuss such details as would show its efficacy. I can only say that the results have been most satisfactory to all concerned and that much good has been accomplished for the Chicago banks individually and collectively.

The organization, being entirely voluntary, partakes somewhat of the nature of a gentleman's agreement, under which each bank binds

itself to conduct its business under proper methods. The effectiveness of the method lies in the fact that they are all measured by the same standard, viz.: that their statements as rendered to the Clearing House Association must be satisfactory to the committee, in view of the examiner's reports upon them, otherwise they cannot continue to enjoy clearing house privileges.

In no sense, however, does the committee assume responsibility for the individual management of the banks or for the quality of all the loans current in them. This responsibility must always rest on the officers and directors of each bank.

All the committee undertakes is to pass judgment, based on the examiner's report, on the reasonable integrity of each bank's assets and the general reliability of its statement. In the fact that the members of the committee are posted on local credits and financial affairs lies the superior efficacy of clearing house supervision. But the committee is not omnipotent—it is only an ordinary human agency. It has no control of the initiative management of the banks under its supervision, and under ordinary circumstances they are only examined once a year. The committee fully realizes the heavy responsibility laid upon it. It has no easy problem to decide as to when or what action

should be taken in connection with the condition of a badly managed bank. Conditions must become bad indeed and expostulation must have been exhausted before any supervisory authority, however constituted, will assume the responsibility of action that might lead to the closing of a bank's doors. If it were otherwise and such action were taken simply because something of minor importance in the bank was considered unsatisfactory such authority would be accused of causing a solvent bank to close and would be blamed not only by its stockholders, but by its depositors in whose behalf the action would be taken. We have had no difficulty in securing the co-operation of all our banks and it can now be relied on that no such conditions as caused us to organize our examination bureau can ever again develop in any bank connected with our clearing house.

Bank supervision by examination on the part of a clearing house committee, while probably the best and the most effective external supervision possible, has its limitations, which should be recognized by the intelligent public, and should not be held to a degree of responsibility which it does not assume.

Chicago's lead in the inauguration of an examining bureau in connection with its Clearing House Association has been followed by Cincinnati, Cleveland, Columbus, Kansas City

(Mo.), Los Angeles, Milwaukee, Minneapolis, St. Paul, New York, New Orleans, Nashville, Oklahoma City, Philadelphia, Portland (Ore.), San Francisco, St. Louis and St. Joseph (Mo.). Three of these cities, viz.: Kansas City, Milwaukee and St. Joseph, instead of having their own examiners, employ certified public accountants to make their examinations. So far as I have learned, and I have heard from nearly all of these cities, clearing house bank examinations have proved eminently satisfactory to all the banks in them.

THE EFFICACY AND THE LIMITA-
TIONS OF BANK SUPERVISION BY
EXAMINATION AND THE RE-
SPONSIBLE SOURCE OF
BANK MANAGEMENT

*[An Address by James B. Forgan before the Convention
of the American Bankers Association in Chicago,
September 17, 1909.]*

Bankers and their customers alike are deeply interested in this subject. For some years past this interest has manifested itself in a growing demand that bank supervision should be as thorough and bank examinations as efficient as it is possible to make them. In response to this demand there has been a steady development of method and a widening of scope in government examinations—both national and state; the clearing house associations of some of our larger cities have organized examination bureaus; and private audits by chartered accountants have become of much more general and more frequent use. These developments have greatly enhanced the efficacy of bank supervision and improved the efficiency of bank examinations.

So marked have been these developments and improvements that there seems now some danger that the limitations of bank supervision by examination will be overlooked and that too much reliance will be placed in the efficacy of external supervision. The public must not be deluded into the belief that official examinations will relieve them of the fundamental duty of exercising their own discrimination in the selection of a bank. The entire credit system on which the business of the country is built up having its very basis in the exercise of such discrimination, any delusion which proposes to relieve the public of it would, morally and economically, be most injurious, tending to carelessness and general demoralization in business affairs as well as to a lowering of the standard of business sagacity and social efficiency.

There is a growing tendency on the part of the public to blame government or other authorities charged with the supervision of banks by examinations for failures when they occur. This tendency of public opinion I regard as unfortunate, untenable and unjust. In considering these questions let me call your attention to three kinds of bank supervision:

1. By the government in the interest of the public.

2. By the clearing house committee in the interest of associated banks.

3. By the directors in the interest of their stockholders and depositors.

As state supervision is modeled after that of the national government and serves the same purpose we may confine our consideration of government supervision to that authorized by the National Bank Act and conducted by the Comptroller of the Currency.

The authority of the Comptroller of the Currency is, of course, statutory, which places limitations on his jurisdiction and restricts it to such powers as are conferred upon him by the National Bank Act. The powers thus conferred upon him, briefly stated, are as follows:

In connection with bank organization he is empowered—

1. To require a copy of the articles of association.

2. To approve each bank's name and its organization certificate.

3. To authorize banks to begin business.

4. To certify payment of stock.

5. To compel oaths of directors.

And during bank operation—

1. To approve or disapprove increase or decrease of capital stock.

2. To require reports from banks and to fine them for refusal.

3. To designate or approve additional reserve cities and additional central reserve cities.

4. To appoint a receiver:

(a) When a bank has refused to redeem its circulating notes, or

(b) When it shall be dissolved and its franchises declared forfeited, or

(c) When a creditor obtains a judgment against it which remains unsatisfied thirty days, or

(d) When he shall be satisfied of its insolvency, or

(e) When its legal reserve is short and it fails to make it good within thirty days, or

(f) When its capital is impaired and it fails to pay it up after three months' notice.

5. To appoint examiners who shall examine into all the affairs of the bank, examine officers and agents and make their reports to him.

The act gives him inquisitorial power as to amount of assets, but only inferentially as to character of assets. He is required to "examine into all the affairs of the bank" and is given discretionary power to decide when an impairment of capital takes place and to take summary action thereon. In order to do so he must, of course, investigate and pass upon the value of the assets. It is not, generally speaking, his function to exercise his judgment as to

current credits so long as they are within legal limits as to amount. The exercise of such judgment would neither be desirable nor practicable. That responsibility rests on the bank's officers and directors. The comptroller seems to be unnecessarily hampered by legal restrictions in determining when losses have occurred. Under the terms of the act no obligation due a bank can be considered bad until interest is past due six months, and not then if it is secured or in process of collection. Such a narrow definition of a bad debt can only embarrass him and his examiners in arriving at a correct conclusion as to the impairment of a bank's capital. Under his power to appoint a receiver he is given the power to decide when a bank is insolvent. He is again hampered here by the Federal courts' definition of insolvency, which is "inability to pay current debts as they mature," and he could be enjoined in the district court for any abusive exercise of his discretion.

Notwithstanding these limitations and restrictions, I believe it may truthfully be said that under no other banking system in the world are such executive authority and plenary powers conferred on any one man as are vested in the Comptroller of the Currency. Nor do the laws of other countries place such restric-

tions and limitations on banking operations as are placed on those of our national banks.

Considerable attention has recently been directed to the possibility of improving the government's supervision of national banks by the passage of further restrictive laws and by extending the comptroller's powers so that he may enforce them by fining or otherwise punishing those who break them. If all the suggestions that have been made along this line were enacted into law the Comptroller's office would become so overburdened with executive duties that no man with any proper sense of the responsibility involved would accept the position. The more general and undefined the powers of the comptroller are, the more useful to our banking system will the administration of his office be made. To charge him with specific duties, which are impractical because impossible of fulfillment, will only weaken the administration of his office and detract from its usefulness. Any attempt to regulate individual bank management by specific legal enactments and to hold the comptroller responsible for their enforcement would prove futile, for, as has been well said by Senator Aldrich in this connection, "we cannot legislate good judgment and honest purpose into the minds and hearts of men." Realizing this, our legislators should be careful that bank management is not hampered with

such petty legal restrictions as only retard the natural and legitimate development of the business, stunt the growth of individual banks and impair their ability to compete for international business with the older and greater banks of other countries.

Under our system of free, individual and purely local banking, rising industries of all kinds in any given locality must provide themselves with banking facilities by organizing and usually controlling their own local banks. The natural tendency of this is to place the management of new banks directly under the control of their principal local borrowers, hence, our banking laws have had to be strongly restrictive and prohibitive. This is a weakness inherent in our system of numerous small, independent banks.

It is evident, however, that restrictive measures which may be necessary to regulate a country bank with very limited resources, when applied to large city banks with resources aggregating many millions, would prove exceedingly irksome, tending only to retard their progress, curtail their legitimate enterprise and impair their usefulness to the community.

Some evils which it is sought to correct by further restrictive legislation are, as I have already intimated, inherent in our system. For instance, there is found in some of our small

banks a large line of trade paper entirely out of proper proportion to their resources and frequently discounted for the president or a director or for corporations in which they are interested. It has been proposed to place legal limitations on the aggregate amount of such paper which a bank can discount for any one customer. It is, of course, the abuse and not the legitimate use of banking facilities which it is sought to prevent by this legislation. By thus attempting, however, to prevent such abuses which only occur in a few cases, the legitimate and helpful use of banking facilities may be seriously curtailed. If the credits as originally granted by the bank's customer have been carefully and judiciously made and the paper has all been taken by him in good faith for merchandise sold and delivered, and if these facts have been properly checked up by the banker, as they should be, a safer, sounder or more legitimate line of discounted paper cannot be conceived. The only limitations necessary to be placed on it, other than the bank's capacity to handle it, are such as every sensible banker will place for himself, viz.: a limit on the amount of the obligations of each individual maker, in proportion to his standing and credit, as these may easily be ascertained on inquiry.

In the great majority of cases it is the prosperous industries in a community that require

banking facilities and their successful owners that take steps to provide them. As a rule, the officers appointed are honest and trustworthy, comprehending their fiduciary relationship to their depositors as well as to their stockholders and having due regard to the well recognized principles and methods of banking as well as proper respect for the banking laws under which the bank is organized. Hence, fortunately, success is the usual result and failure the rare exception, as is shown by the small percentage of failures that take place. Abuses calling for governmental interference creep in when the men in control of a bank through recklessness or mismanagement are unsuccessful in their other enterprises. Under their baleful influence, the executive officers appointed and controlled by them, gradually forgetting their responsibility as trustees, ignoring correct principles of banking and defying the law, become demoralized and permit the use of the bank's facilities for improper purposes. By granting constant renewals of what were originally trade notes, instead of enforcing their payment, they permit their controlling borrowers to carry along their delinquent debtors. Gradually accommodation notes are permitted to go through as representing actual transactions, until the parties in control of the bank, besides having bor-

rowed on their direct obligations all the law permits, have become liable as endorsers on a wholly unwarranted line of discounted paper, which is not what it professes to be, but is composed of renewals of bad credits, accommodations, kites, or otherwise worthless paper, together with all the other abominations to which mismanagement and bad banking fall heir. Such a condition of affairs is a most difficult one for the comptroller or his examiners to handle. The longer it lasts the worse it becomes and it is difficult from a legal standpoint to allege a cause for action. The only thing that can be done is to promptly take exception to such business in its incipient stages, keep on objecting to it and finally take action when it becomes so bad that an impairment of capital or insolvency takes place.

This evil, however, diminishes as industries grow and increase, and banks grow with them. Villages become towns, and towns cities, and banks develop with them, increasing their resources, diversifying their business, distributing their credit risks and gradually becoming independent of any single controlling interest or influence. Just as in other lines of business, the weak and poorly managed drop out of the race and the strong and well managed survive. With our business rush and rapid growth, together with the necessity there has been of em-

ploying men to manage our banks who have had no previous knowledge or experience in the business, the wonder is that failures have been so few. The results afford no basis for serious complaint against the comptroller's department as it has been administered and disclose but little necessity for new laws to regulate it or bank examinations as they are conducted under it. Both are developing as the system develops and are steadily improving in efficiency.

Many of the suggested changes in the administrative features of the National Bank Act are such as under the general powers conferred upon them, the comptroller, his deputy and examiners can best work out for themselves. Some of them, however, are quite necessary and desirable. It would, for instance, be ideal to have a corps of trained examiners, adequately paid by salary and under civil service rules, both as to their appointment and the tenure of their office. Also to make the position of Comptroller of the Currency such as to inspire the ambition of leading and successful bankers to fill it. But these suggestions, however desirable, do not seem practical or available at the present time. They must await the further development of our system and in the meantime we should take such practical steps as may make them possible in the future. Good,

capable and faithful service are not always nor mainly dependent upon adequate remuneration. This is conspicuously the case in the public service. The fact affords no excuse, however, for perpetrating and perpetuating a palpable injustice. The pay of the comptroller is now and has long been totally inadequate. As a matter of simple justice as well as of sound public policy his salary should at least equal that of the presidents of large city banks. Instead of being regarded as a position from which bank presidents may be graduated, the comptrollership should be considered a post-graduate honor and a distinction of the highest order to be conferred on men who have previously filled a president's position and demonstrated their ability by the success they have achieved. These ideals can hardly be realized, however, so long as the acceptance of the honor by one holding such a position would mean the reduction of his income by from one-half to two-thirds, besides having to give up a permanent position for one of limited term of service.

The pay of the comptroller's deputies and examiners should also be such as to command the services of experienced and competent men. The policy adopted by the present comptroller of appointing as examiners men of previous banking experience, giving preference to those who have been connected with sound, progres-

sive and well managed institutions and refusing to consider applications from officers or employees of badly managed banks, cannot be too highly commended. However, as he will have to compete for the services of such men with practically all the good banks in the country, their remuneration should be made such as will enable him to do so successfully.

It is most desirable, almost essential, that bank examiners should have had a bank training. Without it, unless they are men of very exceptional natural ability and adaptability, they are liable to be impractical in their work and erroneous in their judgment, applying theories to problems which will not solve them and failing to exercise that sound judgment which, as a rule, is only acquired through practical experience in the business. On the other hand, the experience of a bank examiner is of incalculable value in the evolution of a bank training, provided he has previously been long enough in the banking business to have acquired somewhat of what may be called the banking sense—a sort of intuition by which a banker reaches conclusions and makes decisions that are generally his best. Policies controlling successful bank management must be in accord with the laws of political economy and with sound financial theories. Such laws and theories will not, however, solve the problems connected with individual ap-

plications for loans, no two of which are ever alike. The theoretical banker, who knows it all and can give you a definite rule for all he does, is not generally the successful one. Accompanying theoretical knowledge there must be sound judgment and applied common sense. Bankers have human nature to deal with in all its varying propensities. They must, as Burns advises,

“Keek thro’ ev’ry other man,
Wi’ sharpen’d, sly inspection.”

Not coming into daily contact with the borrowing public and having constantly to pass judgment on transactions after they have been completed, bank examiners have little opportunity for the development of this banking sense, and unless they have by previous experience acquired it they are very liable to get into a too critical frame of mind and to become over-technical and theoretical in forming their judgments. Having been a bank examiner myself I speak from experience. The value of a bank’s resources cannot be measured by the rules of mathematics, accountancy, political economy or finance, and yet bank examiners, as well as bankers, should be familiar with all of these sciences.

A year ago when playing golf on the old

links at St. Andrews, Scotland, I saw a party of players coming towards me with quite a gallery following them, showing that they were recognized as experts at the game. Turning to the old man who was carrying my clubs, I asked him who the players were, which he told me. Recognizing among their names that of a well-known authority on the game, I remarked that I supposed he was a very good player. "Weel," said the caddy, "he used to be among the best, but two years ago he wrote a book on the science of golf and he has not been much of a player since." I have sometimes wondered since if there was not some practical sense in the old man's observation. The gentleman's close attention to the technique of the game may possibly have affected his natural ability to play it; while thinking of how to place his feet he may have neglected to keep his eye on the ball.

Borrowing from their own banks by officers and directors is another matter which it is thought should be regulated by further prohibitive or restrictive legislation. That there has been serious abuse of banking privileges along this line is only too true, but, as I have already pointed out, it is due to an evil lying at the very foundation of the development of our banking system, the arbitrary prohibition of which now would be almost revolutionary.

The trouble lies in one man being permitted to act on both sides of a transaction, *i. e.*, both as borrower and lender. Officially, he passes judgment on his personal credit, and it is not human nature that he should degrade himself in his own estimation. Bank directors who know their responsibilities and care to assume them will not permit such practices.

It may be necessary under our system to do as some of our state legislatures have already done—prohibit loans to salaried officers except with the full consent of the board of directors, regularly recorded in their minutes. It is a mistake, however, to pass laws which are too easily circumvented. It only induces evasion, which is always demoralizing. As a rule, salaried officers of banks should have little occasion to borrow, and it is open to question if when they do they should not do so at their own banks, always on satisfactory security and with the knowledge and approval of their directors; never, in my opinion, otherwise. It is certainly better so than that they should be compelled to go to some officer of another bank, or to some personal friend and customer, with whom reciprocal arrangements for mutual accommodation could be so easily established.

However this may be, it is certain that to absolutely prohibit loans to directors, or to place legal restrictions on loans to them, or to cor-

porations in which they are interested, that do not apply to other customers, would completely upset our present banking system, destroy the integrity of its directorate and seriously impair its usefulness. The best directors banks can have, and those they now do have, are the men connected with the leading commercial and manufacturing industries, whose close touch with business affairs makes them the best judges of credits in their various communities. If by being directors they are debarred from the legitimate banking facilities to which they are entitled, they will cease to be directors, and the inevitable result will be that dummies will take their places, possibly to do their bidding. The demoralizing effect of such a condition of affairs, affecting practically every bank in the system, can easier be imagined than described. It does not follow from this that the present practice of showing directors' liabilities in reports to the comptroller should be discontinued, or that examiners should not take special cognizance of them to see that the bank is not being illegitimately or unreasonably used for the special benefit of those controlling it. This is always a legitimate and most necessary subject of investigation. It will, however, be found in nearly every case that the best loans in the banks are those to its directors, who are engaged in the legitimate, successful and profit-

able enterprises of the communities in which they live.

A serious defect in the Bank Act, as the courts have interpreted it, is that false reports made to the comptroller are not a misdemeanor as are false entries in the books and false statements made with intent to injure or defraud the bank itself. This is all wrong and should be promptly corrected. The making of false reports to the comptroller should be regarded as the most heinous offence of its kind and should be punished accordingly. A false report to him means a fraud on the public whose representative he is. It should be part of the duty of examiners to check up reports made to the comptroller. The integrity of the system depends on the reliability of the statements made from time to time to the comptroller and published in the newspapers. There should be no weakness in the administration of the comptroller's office in regard to the criminal prosecution of bank officers who are guilty of falsification or misrepresentation. Such offences should be nipped in the bud. When an examiner discovers anything in the books, the securities, the loans or the records that misrepresents actual conditions it should be a case for criminal proceedings and the law should be such as to facilitate prompt action.

At an early stage of my banking career

the inviolability of bank reports was strongly impressed on my mind. A bank agent in my native town misappropriated some of the bank's money. According to the rules of the bank a monthly statement had to be rendered to the head office. In this statement the agent and accountant had both to certify that they had counted the cash and that it was all on hand as stated. The regular accountant being absent, a clerk, who was a friend of mine and whose honesty was unquestioned, was temporarily filling his place and it became his duty to sign the statement. The agent, claiming that he had something important to attend to and that he wished the statement dispatched at once, induced the young man to sign it, without giving him an opportunity to count the cash in his custody, but promised that he would do so next morning. The next day he put him off again and after a few days, when the young man found that the agent had no intention of fulfilling his promise, he wrote his brother, who happened to be a clerk in the inspector's department at the head office in Glasgow. He simply stated the facts to his brother and asked his advice under the circumstances. His brother showed the letter to the head inspector, who promptly dispatched two men to the branch to investigate. They found a deficiency in the agent's cash and had both him and the

clerk arrested, the former on a charge of embezzlement, the latter for having signed a false bank statement. The agent was tried and sentenced to the penitentiary inside of thirty days, and it was only due to the action of the leading men of the community who, knowing the circumstances, got up a largely signed petition to the court in the young man's behalf, that he escaped punishment, but the incident ended his banking career and he is now a respectable farmer in this country.

There is a matter on which a difference of opinion has for some years existed between the comptroller's department and some of the most conservatively managed banks in the system. While it may not be considered germane to my subject, I should like, if I do not weary you, to discuss it now. I refer to the contingent account not shown in the published statement. Like many other banking practices, sound when kept within reasonable limits, it is susceptible of abuse and may be made the means of misrepresenting a bank's true condition. When built up beyond reasonable limits and its existence is only known to the officers, directors and a few favored stockholders, great injustice may result. Outside shareholders, ignorant of the true book value of their stock and of its real earning power, might be induced to sell it to inside parties at much less than its actual

value. This, however, would be a misdemeanor on the part of the officers and directors and could be controlled by the criminal code as other frauds are. The injury would, however, be confined to the deceived shareholders. No harm could come to depositors from a bank being stronger than its statement discloses. In the interest of the bank itself as an institution, as well as in the interest of the stockholders who own it, a reasonable contingent fund is desirable and generally necessary. Such a fund furnishes a reserve strength to protect a bank's resources against contingencies of which there are plenty. In exceptionally prosperous years when profits are large provision should be made for possible losses in lean years. Thus a bank's earning powers can be steadied and sudden or violent changes in the book value of its stock prevented, much to the benefit of the stockholders. For example, the year 1908 was one of abnormally large banking profits, while so far this year, owing to the low rates prevailing for money, profits have been abnormally small. Last year, therefore, it was possible to make liberal allowance for losses, and in view of the panic, just then passed, it was good banking that this should have been very generally done. This year there has been no margin of profit on current business out of which after paying dividends the usual necessary provision for losses

can be made. At the close of 1908 it might have been impractical to specifically apply the amount then appropriated, while in view of general business conditions and their effect on the bank's customers the directors had good reason to anticipate considerable loss on current loans, and when they had thus cause to expect it who will say that it was anything short of their duty to provide for it. It is neither necessary nor advisable that whenever loss is threatened on the accounts of certain customers still actively doing business, a portion of their current loans should be charged off as if loss on them had already occurred. Such an appropriation should be made as in the judgment of the directors seems necessary, charging it to profit and loss account and crediting it to contingent account, where it can remain until the anticipated losses materialize, which they generally do. Such appropriations should, of course, be regularly shown in the statement of profit and loss account rendered to the comptroller and the contingent fund should be kept in the general ledger open to the investigation of examiners. In my judgment no sound, conservatively managed bank can afford to be without such a fund. It protects the new shareholder who invests in the stock at the market price, based on the bank's published statements, against fluctuating values of its re-

sources in consequence of losses having to be provided for on loans or other assets in existence at the time he makes the investment, and I think he is entitled to such protection. Further, it has a most beneficial effect on the management to feel that the bank is running ahead, instead of lagging behind in the procession.

The comptroller's department will doubtless agree with all I have thus far said on this subject, but will ask why the contingent fund should not be shown in the published statements as undivided profits are? It will claim that the public and the shareholders are entitled to know the actual condition of the bank, which they cannot do if there are hidden profits not shown in the statements. My answer is that there are or should be no hidden profits. The contingent fund represents an amount which the directors have deemed it necessary to deduct from the profits and set aside to provide for anticipated losses in current loans in order to maintain their integrity. While, therefore, the ledger and balance book will show the fund in a special account, when a statement of the bank is published the amount of it can quite properly be applied where it belongs. It should be deducted from the current loans, reducing the amount of them as published to the realizable value placed on them by the directors.

The main thing looked for by the public

from governmental supervision is reasonable assurance that bank statements, which are mere figures after all, can be relied on. In view of this and of the natural desire on the part of bank management to make the best showing possible in their published statements, and the general tendency being decidedly along this line, it would be a wholesome policy on the part of the comptroller to encourage, if not to require, the maintenance by the banks of a reasonable contingent fund. It would lead to the keeping of an anchor to the windward for the benefit of all concerned. It would certainly be an improvement on the present erroneous practice, against which no exception seems to be taken. I refer to the very general practice followed by the banks of overstating their accumulated profits by including in them discount on time loans collected in advance. All notes discounted up to the date of the statement appear in it at their face value, while their real value is the price at which they are purchased, that is, they are subject to the rate of discount received on them from the time the statement is made to the various dates of their maturities. How would a banker regard a customer's statement if he learned that in taking inventory of stock on hand the customer had added the selling profit to the cost price, thus "counting his chickens before they are hatched," and yet

in bank statements this is the common rule to which correctly made statements are the rare exceptions.*

*Since the above was written my attention has been directed to some pertinent remarks on this subject by Mr. H. C. McLeod, general manager of the Bank of Nova Scotia, Canada. In his report for 1901, referring to the bank's annual statement in which these words appear: "Losses by bad debts estimated and provided for," he goes on to say: "By scrutinizing the assets as shown, these words will appear almost meaningless unless they signify more than that the notes and bills overdue have been provided for, and they are intended and expected to be understood as having a deeper meaning. Doubtless those who have perused the history of this institution, issued a few months since, will have observed that progress has not been steady, even during the past thirty years. Good times and bad times succeed each other. The period from 1875 to 1885, with its lack of progress and struggle to earn dividends, though under excellent management, will long be remembered. Although it was a bad period for profits, it was fruitful of experience, costly experience; the most valuable lesson being that to make appropriations for losses after they are ascertained is unreliable and incorrect. From the record you will see one year in which an actual loss is shown, more than the regular profits for the year having been required to pay losses on assets that a few months before were good in the opinion of most capable bankers, who have since attained marked distinction in their calling. The simple fact is, experience shows that by taking a long period of time, a certain percentage of the total loans made must be provided for as bad, with the natural conclusion that the scientific method is to provide that percentage each year, thus ensuring comparatively steady progress. This plan is in agreement with the acknowledged fact that losses creep in during good times, to be detected later when credits are more carefully administered. For life insurance companies, actuaries readily calculate with mathematical precision the loss to be realized from the

The objects being the maintenance of the integrity of the assets and the adjustment of profits and losses one year with another, so that the growth of the surplus may be solid as well as steady and uninterrupted, the publication of the fluctuating amount of the contingent fund would only confuse the public, hurt the bank, and nullify all the benefit to be derived from it. Rather than show it in the published statement it had better remain in profit and loss account as part of which, if shown, it would erroneously continue to be reckoned. A short statement by each bank to the effect that proper provision has been made for all known or anticipated losses and that loans are shown in the published statement at what is believed to be their estimated realizable value would be more satisfactory to the public and more easily understood by it.

The National Association of Credit Men, from whom, I have noticed, there emanates from time to time a good deal of sound business sense, recently appointed committees of their state organizations to investigate the condition of the state banking laws. After careful investigation these committees are required to

death rate, and while this bank's experience does not permit of the same accuracy, the death rate in our assets may be more correctly measured by the methods indicated than by any others known to us."

answer to a general committee of the national association the following questions:

1. Does your state have a state banking department with a superintendent at its head appointed by the governor?

2. Is your state banking law considered by bankers, lawyers and business men generally adequate in its requirements in the way of

(a) Maintenance of reserve,

(b) Frequent and searching examinations and authoritative supervision,

(c) Prevention of over-extension of credit to heavy borrowers,

(d) Penalties for the making of false statements of condition,

(e) Economic liquidation in cases of failure?

These questions, it strikes me, furnish an almost complete synopsis of everything that government supervision can be expected to accomplish, and, with the exception of providing for adequate punishment for the making of false reports to the comptroller, our National Bank Act already covers them all. With adequate pay provided for the comptroller, his deputies and examiners and with some unessential amendments in minor details the powers now conferred upon these officials appear to me to be quite sufficient to enable them to accomplish

all that can possibly be accomplished through governmental supervision.*

The department in its methods is showing its ability to keep abreast with the development of the banking system and its administration is steadily improving in the value and reliability of its service both to the banks and the public. As an illustration of this and of the ability of the department officers to develop their own methods under the general powers they now possess without specific legal enactments for every move they make, which would hinder and hamper more than they would help them, let me draw your attention to some of the department regulations recently inaugurated:

Bank examiners can be neither stockholders nor borrowers from national banks.

Savings banks, trust companies or other

*Since this was written the Comptroller of the Currency has expressed himself as follows:

"After a year's trial of the Bank Act, I can say to you frankly that it gives me all the power I want, and even more. If I were today to go again before the National Currency Commission, and the question were asked me as to what changes were necessary, I would answer, that in my opinion the only essential change was one giving bank examiners in the country districts more compensation.

"Of course, some trivial administrative features of the Act could be made a little better, but I do not want, and I do not believe any other comptroller will ever want, any more actual power than the present banking law now gives."

state banking institutions allied with national banks are examined simultaneously with them.

Bank examiners are to be selected from men of previous banking experience who have been connected with sound, progressive and well managed institutions.

Banks are classified in the department according to the character of their management and such as are classified poor are being examined four times a year in the presence of their directors, from whom a letter is required promising that conditions subject to criticism will be attended to and corrected, while those whose management is classified as very bad are being handled in a still more vigorous manner.

Examiners are now required to make such careful and complete reports in writing of all evidence discovered by them tending to show criminal violation of the Federal Statutes that the Department of Justice may determine from them without further investigation whether or not there has been a criminal violation of law.

The national bank examiners through the country have been divided into eleven districts with a chairman appointed by the comptroller for each district. Examiners in each district are required to meet twice a year to have a general discussion of methods of examination and to prepare reports of banks in the district whose condition is unsatisfactory and

of any lines of doubtful credit in them; each examiner to report to the chairman for his own particular section and the chairmen to furnish the comptroller with a complete report of the proceedings, retaining a copy for reference at future meetings. The chairman of each district at his discretion can report to the chairman of any other district such information as he may deem advantageous.

The efficacy of government supervision by examination lies primarily in its restraining influence on bank management. The knowledge that the banks are to be examined holds the officers in check. This followed by the criticisms of the comptroller based on the examiners' reports is efficacious in inducing or compelling bankers to comply with the law and with proper banking methods and to face and provide for losses as they occur. This should afford the public reasonable assurance. Such are the benefits to be derived from governmental supervision and the degree of their accomplishment is the measure of their efficacy. All external supervision is, however, based on the examination and consideration of transactions after they have occurred. It cannot control the making of loans or investments at the time they are made. It has no control of initiative management. It cannot, therefore, be held responsible for errors of judgment or lapses of

integrity. Its business is to discover such and its efficacy depends upon its ability to do so. It is at best a human device and in common with all such devices its limitations should not be ignored or forgotten.

The next branch of our subject is "clearing house supervision in the interest of associated banks". As you are doubtless all aware this method of local supervision was first inaugurated in Chicago three years ago. Its main strength is derived from the fact that it was evolved from the voluntary action of the banks themselves for their own benefit individually and for their protection collectively. Thus "its just powers are derived from the consent of the governed". Similar bureaus have since been organized in St. Louis, Minneapolis, St. Paul, San Francisco, Kansas City, Philadelphia, St. Joseph, Milwaukee and Los Angeles, while other cities are showing their interest by investigating our methods and the benefits to be derived from them.

A short statement of the Chicago method may, therefore, be of interest to you. Neither the committee having the matter in charge nor the examiner are hampered in their work by any code of rules and regulations adopted by the associated banks. Both were given an absolutely free hand. The committee was by resolution instructed to secure the services of a

suitable man of experience to examine the seventeen member and some forty non-member banks clearing through members. Having secured the services of such a man, the committee, in turn, instructed him to engage the necessary help (he has now five assistants) and proceed in his own way to make thorough examinations of all the banks. The following extract from the original letter addressed by the committee to the president of each bank will fully explain the method adopted:

“The examiner will furnish you for the use of your directors a detailed report on the condition of your bank at the date of his examination. He will file in the clearing house vault, under his own custody, a copy of such detailed report. He will also make a separate report to the clearing house committee expressing in general terms his opinion of the condition of each bank as he finds it and calling special attention to any unwarranted conditions or gross irregularities discovered. His detailed reports will not be examined by the clearing house committee except when it may appear necessary to do so from the general report of conditions made to it.”

And the following from a letter sent out later to the directors of each bank as the first examinations of them were completed will show that the method was intended to benefit direc-

tors and that their co-operation in correcting anything open to criticism was desired and expected by the committee:

“The clearing house committee, desiring the co-operation of bank directors in maintaining a high standard in the condition of banks in the city, has requested the official examiner to notify the directors of each bank, individually, when he has completed and delivered his report to the president so that every director will have an opportunity of perusing it. The committee urges upon every director that he should, as a part of his directorial duty, carefully examine such reports as promptly as possible after he receives notice of their existence.”

Bank directors have been most enthusiastic in their commendation of the method. They find that it gives them an opportunity of judging of their bank's condition, as a whole, which the mere passing upon individual loans at their meetings does not afford.

Our experience has been that the banks have almost unanimously adopted every suggestion made by the committee. The method has worked with but little friction, and while I cannot discuss such details as would show its efficacy, I can say that the result has been most satisfactory to all concerned and that much good has been accomplished for the Chicago banks individually and collectively. The organization

being entirely voluntary partakes somewhat of the nature of a gentlemen's agreement, under which each bank binds itself to conduct its business under proper methods. The disciplinary effectiveness of the method lies in the fact that they are all measured by the same standard, viz.: that their statements as rendered to the Clearing House Association shall be satisfactory to the committee, in view of the examiner's reports upon them, otherwise they cannot continue to enjoy clearing house privileges. In no sense, however, does the association or its committee assume responsibility for the individual management of the banks or for the quality of all the loans current in them. This responsibility, as I have said before, rests, and must always rest, on the officers and directors of each bank. All the committee undertakes is to pass judgment, and that only approximately being based on the examiner's report, on the reasonable integrity of each bank's assets and the general reliability of its statement. In the fact that the members of the committee are well posted on local credits and financial affairs lies the superior efficacy of clearing house supervision. But the committee is not omnipotent—it is only an ordinary human agency. Like the comptroller, it has no control of the initiative management of the banks under its supervision. It fully realizes the heavy responsibility laid

upon it. It is no easy problem to decide when summary action should be taken in connection with a badly managed bank's condition, which depends on the condition of its customers, while both they and it are interdependent on each other. Conditions must become very bad and expostulation be exhausted before any supervisory authority, however constituted, will assume the responsibility of action that will lead to the closing of a bank's doors. If it were otherwise and such action were taken simply because something in the bank was unsatisfactory such authority would be accused of shutting up a solvent institution, not only by its stockholders but by its depositors themselves in whose behalf the action would be taken.

It may, therefore, be said that bank supervision by examination on the part of a clearing house committee, while probably the best and the most effective external supervision possible, has its limitations, which should be recognized by the intelligent public, and it should not be held to a degree of responsibility which it does not assume.

We will now consider supervision by directors in whom is vested the primary responsibility for bank management. Their supervision is in the combined interests of the stockholders who elect them and of the depositors who confide in them. They govern and direct as a

board, requiring the presence of a quorum for the transaction of business. Their official actions and the responsibility they assume are, therefore, collective and not individual. They are not expected to devote their entire time and attention to the affairs of the bank and their supervision is necessarily more or less intermittent. They appoint and fix the remuneration of the officers and for cause can discipline or discharge them. Thus they, and they alone, control the initiative of management and on them must rest the final responsibility for it. The officers appointed by them dispose of their time and their talents to the bank for the consideration of their salaries and assume the daily details of management.

Such being the established relations it becomes the primary duty of the directors to hold the officers to a strict accountability, not only for integrity and honesty in motive and action, but for efficient and successful service. It will go without saying that the power of the directors to discipline or discharge officers should be promptly exercised on the discovery of dishonesty, deception or bad faith, either in their personal or their official capacity, or for dissolute or improper conduct in their private life. It is equally essential, however, that the same power should be exercised in cases of incompetency, bad judgment, recklessness, speculation

or whatever there may be in the make-up of the officers that injuriously affects the management or deprives it of public confidence and success. In the exercise of this prerogative, probably more than in any other way, directors are prone to neglect their duty. It is not an agreeable one, and collectively they are disposed to evade it even when individually they realize the necessity for it. It is, without doubt, the primary responsibility placed upon them, and its evasion must be held responsible for much of the disaster resulting from bank failures due either to incompetent or to dishonest management.

The same ordinary prudence which men exercise in their own affairs is required of bank directors. The application of it differs with the varying circumstances of the banks. Just as men of small or moderate affairs can undertake the personal management in detail of their own businesses, while those of large affairs must of necessity employ others to manage for them and must relieve themselves of details, so bank directors under similar circumstances may assume the details of management or appoint others to do so. Their delegating authority to others does not, however, relieve them of responsibility for the direction and supervision of the management or of keeping in touch with what is done. In banks of moderate size this can be accomplished by committees. In the

largest banks, however, it becomes necessary for the directors to delegate even the details of their supervisory duties to experts and to rely on their investigations and reports for an intelligent knowledge of what is being done and of their bank's condition. Systematic organization is necessary, whether a bank is small or large, and directors must see to it that one of its results is that they are kept fully posted as to the bank's operations and condition. This can be accomplished quite as effectively in large as in small banks through the employment of competent auditors either permanently or when they are wanted. Such auditors in their investigations should represent the directors and should report direct to them, uninfluenced by any of the executive officers. But, however it may be accomplished, it is up to the directors to keep themselves posted as to their bank's operations to the extent of enabling them to form a correct opinion of actual conditions in them and to judge of the integrity and ability of the management, as it is conducted by the officers, to whom they have delegated managerial powers. Only thus can they intelligently exercise their control of the management, a responsibility from which there can be no escape.

The progressive success or lack of success in bank management can be fairly well discov-

ered by the periodical classification of a bank's loans and investments. This classification should be conscientiously made outside of the executive officers. It may be done by a committee of directors or by a competent auditor, at whose disposal must be placed the statements of customers and all the information available in the credit department. The assets can be divided into five classes and the result will, I think, disclose to the directors the necessity for a contingent fund, such as I have advocated. The percentage of each class to the aggregate total should be shown and the periodical classifications compared with each other. This will disclose the progressive condition of the assets, whether they are growing better or worse, and from the result the management may be judged. I suggest the following classification:

1. Good desirable business.
2. Fair business risks.
3. Business not desirable as a new proposition, but which policy makes it necessary to carry along for the purpose of gradual liquidation.
4. Loans which should be liquidated and on which more or less loss is probable.
5. Loans so bad that they should be charged off now.

The respective percentage of these five cate-

gories forms a very good criterion of the character of a bank's management. It must be the constant and unremitting aim of its officers to reduce class three to its smallest possible proportion and to eliminate entirely the fourth and fifth classes.

Co-operation among all supervisory powers is most desirable. National and state government examiners should consult and co-operate with each other and, where the opportunities exist, with the clearing house examiners. The comptroller and the state banking commissioners might, with propriety and with much benefit to both systems, establish confidential relations with each other and with the different clearing house committees, and all should keep in close touch with the bank directors and take them into their confidence regarding everything open to criticism in their banks. They are all engaged in the work of raising banking standards and improving banking conditions and they should avail themselves of every opportunity for co-operating towards these highly desirable ends.

External supervision alone, under whatever authority it may be exercised, it is needless to repeat, cannot establish safe and sound banking. Honorable and intelligent initiative management must be relied on for the ultimate success of individual banks. As now administered,

however, governmental and clearing house supervision are doing a great deal (in my opinion as much as can reasonably be expected of them) along the line of purging and purifying our system, raising our standards of banking and giving to the business a character which conduces to that healthful tone so essential to the commercial, industrial and social life of the nation.

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